The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta JULY 31st, 1939

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WITNESS:

E X H I B I T S

THE CHAIRMAN: We will defer consideration of this Exhibit "543", whether we will or will not release that Exhibit until Mr. Cottle is here. I want to hear him.

MR. PLOTKINS: Yes.

THE CHAIRMAN: All right, Mr. Plotkins.

JOHN STANGER, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Stanger, what is your position in the Lion Oils Limited?

A I am in the marketing department, the office end of it.

Q And is the statement, Exhibit "545" called "Interim Report On Marketing Operations for 1938", is that a document prepared by you?

A Yes.

Q And you are here for the purpose of putting this statement in evidence?

A Yes.

Q Would you mind then, you might if you like perhaps say what it is very generally and then read it, I would think, into the record after you describe it briefly?

A Yes.

Q The purpose of it?

A Yes, this statement is intended to give a brief sketch of our operations especially during 1938 and also to outline some of the methods in which we handle the questions of marketing such as prices, etcetera; it also touches on the distribution system and on the goods and sales of lubricating oils and greases.

Q All right, Mr. Stanger, I think you might just read it into the record now and stop to elaborate on it any place where you think it needs it.

A Yes.

THE CHAIRMAN: Excuse me, Mr. Frawley, I wanted to ask you before, while it is present in my mind, are we dealing with the question of spreads in lubricating oils and other greases as a separate matter or not?

MR. FRAWLEY: Yes.

THE CHAIRMAN: We have not heard a great deal about whether or not those who have to buy lubricating oils and greases and things are being overcharged or undercharged.

MR. FRAWLEY: The consumer you mean?

THE CHAIRMAN: Yes.

MR. FRAWLEY: The consumer price on lubricants?

THE CHAIRMAN: Yes, and it is important to the farmers.

MR. FRAWLEY: Yes, that is quite true.

THE CHAIRMAN: And it is something we are called upon to deal with.

MR. FRAWLEY: Yes, it is something which is certainly in the record. We have a general description now of the movement of those lubricants, at least to the way in which the prices are fixed; one way is they are fixed the same for all of Alberta with the freight pooled; whether or not that mark-up over the laid-in cost, which is appreciable on Mr. MacKenzie's statement, in fact on all the statements, is very large, whether that is a proper spread, justifiable spread, is something which I think will have to receive some consideration.

THE CHAIRMAN: Yes.

WITNESS: Lion Oils Limited is a marketing company owned and controlled 100% in Alberta.

THE CHAIRMAN: I am sorry to interrupt you so often, but before we get really started, if I might ask these preliminary things. Mr. Nolan, there is something you hoped to have this morning?

MR. NOLAN: Yes. Unfortunately Mr. Halverson was not in Toronto and it has not come in by mail. I expect he will be there today and it will be sent by air mail and it will be here, I hope, very shortly. That is the question of the relationship of the jobbers?

THE CHAIRMAN: Yes.

MR. FRAWLEY: Mr. Nolan says, points out that his company has not by any means overlooked the question of lubricating oils and greases because Mr. Halverson's memorandum, Exhibit "317", deals wholly with lubricating oils, sales distribution and prices and it may be that the other companies have not submitted anything quite as complete as Mr. Halverson did but I am still wondering whether or not we have something from the British American. The matter will have to be further considered and I will do so.

THE CHAIRMAN: I do not carry in my mind what is in all these briefs but there has not been a very general discussion of lubricants, Mr. Nolan, to the extent that we have been discussing other spreads and I just wondered whether Mr. Frawley was intending to deal with it further.

MR. NOLAN: Yes, I understand.

THE CHAIRMAN: I think I do recollect now that Mr. Halverson gave a fairly complete statement but I

think he may be the only one.

MR. FRAWLEY: I must look into it and see how complete the statement of the British American was.

THE CHAIRMAN: Anyway, we have in mind now that we are concerned with that.

MR. FRAWLEY: Yes, we must be in the end.

Q THE CHAIRMAN: All right now, Mr. Stanger, please.

WITNESS: Lion Oils Limited is a marketing company owned and controlled 100% in Alberta. The company owns its own marketing facilities and has a working agreement with Lion Refining Company whereby it purchases the total output of that refinery at prices which are lower than those which it would have to pay to competitive refineries. The company, during its first year of operation, had one station in Calgary, Edmonton and Millet, practically no storage facilities, and only one truck for distribution purposes.

THE CHAIRMAN: Does it appear when the first year of operation started, you say "the company during its first year of operation", you might tell us when that year was.

MR. PLOTKINS: The company was incorporated on August 1st, 1933, that is the Lion Oils Limited as a separate marketing organization.

MR. FRAWLEY: It was 1933 you had the one station in Calgary, Edmonton and Millet?

MR. PLOTKINS: Yes, August 1st, 1933, an Alberta charter.

J. Stanger

THE CHAIRMAN: All right.

WITNESS: By 1938 the company had extended its operations to comprise stations in Edmonton and Red Deer, four in Calgary, and a distributing outlet at the refinery in Manchester, as well as owning certain equipment on the premises of wholesale dealers. The net fixed assets of the company after deducting for depreciation in marketing and distributing facilities as at December 31st, 1938, was $16,016.16.

A brief summary of the properties and personnel incidental to the 1938 operations is as follows:

Number of company owned distribution centres	4
Number of company owned retail service stations without bulk facilities	2
Number of retail selling pumps distributing Lionoil products	64
Number of wholesale agencies stocked with Lionoil products	36
Number of truck distribution agents	250
Number of company owned truck and trailer units	3
Number of tire consignments	12
Number of permanent company employees in wholesale and retail and distribution service	25
Office and salesmen personnel	8

A summary of the sales of refined gasoline products for 1938 is as follows:--

	Gallons	% of Total
Ethyl	52,666	2.039
Gold which is standard	423,739	16.409

Q THE CHAIRMAN: Is that "Gold" treated with tetraethyl lead?

A Yes, that is the standard gasoline.

Q MAJOR LIPSETT: That is purchased by your company, is it not?

A Yes.

Q Manufactured?

A No. Both the ethyl and the standard.

Q THE CHAIRMAN: Yes.

A Lion white, which is a third structure white gasoline 937,931 36.321

Flight 128,061 4.959

Q MR. FRAWLEY: Which is what?

A Which is a naphtha standard gasoline which we market for competitive purposes.

Tractor Gasoline, which was marketed the first half roughly of 1938 which we later discontinued, 291,508 gallons, representing 11.288% of the total.

Q MR. PLOTKINS: Pardon me if I might interrupt at this point because I think explanations are in order; Mr. Stanger, why did we sell this tractor gasoline and this product called "Flight"?

A Well as far as the tractor gasoline was concerned a similar product was marketed by nearly every company, I believe, in the early part of 1938 and we had this gasoline at that time; there was also our own particular reason in that we have always kept our Lioncil White gasoline as a premium product and with the only exception that it is not a leaded gasoline it is, we believe, as good as any gasoline on the market.

Q Well now, you had probably better explain that to the Commission, why do you say that our Lion White is a premium

gasoline in your estimation, premium third grade?

A Yes, well I believe as far as general oil companies are concerned the third grade gasoline is not a very strong point in their retail sales; they rather look for more sales of leaded gasoline and consequently they just put out an average run of White gasoline but ours, we make it, in every possible way conforring to a set of specifications which are the equal of standard gasolines with the exception of course that it is not leaded.

Q Is the competitive third grade, until a short time ago, until the British American erected its refinery and started to process its own requirements, where was most of the third grade gasoline coming from?

A It was manufactured at the Imperial Oil.

Q Did it conform to the specifications of standard gasoline with the exception of lead?

A I rather doubt it. I do know very positively, although so far as specifications of gasoline, I imagine it came, that our product was always regarded as a premium product over the major companies' white gasoline especially from the selling standpoint in that a visible pump bowl having our Lionoil White gasoline in it is a very beautiful thing to look at. The gasoline is crystal clear and with a really polished bowl it looks 100% whereas the white gasoline of most of the other companies, especially those obtaining their products from the Imperial Oil had a very cloudy, almost dirty kind of look. It certainly was not crystal clear.

Q Yes, now let us go into that, now what would be the effect of a customer coming to a service station and noticing a

grade of gasoline clear and clean and inviting and along side of it another third grade that is yellow and you cannot see through the bowl and which is not inviting?

A I imagine they would take the better looking product. That is just human nature.

Q Would they be willing to pay more money for it?

A Yes, that is probably true too.

Q So that when we say that our third grade gasoline, due to the fact that we manufacture it and make a very fine product of it and it is not subject to being bought from somebody else, and where no restrictions are imposed, on what has that an effect?

A The sales.

Q The sales of our third grade gasoline?

A Yes.

Q Because we have the refinery and we deliver a particularly fine product which we make, which is considerably better than, in our opinion, and we will be able to prove that later on, than the competitive third grade such as Acto ---

A Well, we make it, I will put it this way, we make it as good as we possibly can and as a result it was better than the majority on the market.

Q Now what have you to say in regard to Flight gasoline?

A Flight gasoline was, as I have said before, a naphtha blended product put out for the express purpose of meeting some of the competition afforded us through the sale of naphtha, crude naphtha and other naphtha blended gasolines.

J. Stanger

Q Yes, what competition in chief?

A The competition mainly in 1938, I believe, a competition from the sale of naphtha.

Q Who sold the naphtha, who was able to sell naphtha?

A In 1938 every major company had naphtha available for sale and I believe any jobber that was purchasing their products from the main companies.

Q Was it available to us?

A That I do not just recall.

MR. PLOTKINS: All right.

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Q MR. FRAWLEY: You are making a point of the fact it was a naphtha blended gasoline and Lion white was not such a gasoline?

A No, the point is that Flight gasoline, of which I guess the price list will be put in, it will show it was sold at an extremely low price, 10 cents a gallon as a matter of fact, tank waggon price. It was a product we took little trouble with, being entirely a price proposition.

Q MR. PLOTKINS: That was done to meet competition?

A Yes.

Q MR. FRAWLEY: Lion White, there was no blending of naphtha with that?

A There would be in the Winter time a small blend of plant naphtha.

Tractor Kerosene	209,372	8.108
Tractor Fuel	117,470	4.549

I might add a word of explanation as to what Tractor Fuel was. We have not marketed it during 1939. It was a blend of raw casinghead naphtha and Diesel fuel. We blended this product as we found it had considerable customer acceptance and worked extremely well in John Deere tractors. As a matter of fact, since our discontinuance of it this year we have had numerous enquiries for this fuel, as the casinghead in it enabled the tractor to start on it very, very nicely and the Diesel fuel gave them remarkably long hours. Gasoline in a John Deere tractor would not have given them the same length of hours.

Diesel	54,886	2.126

Q MR. FRAWLEY: That is just purchased and sold?

MR. PLOTKINS: We want to explain that. Who was this naphtha sold to. Did we sell that in our own operations?

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A A certain proportion of it we did. A large proportion of it we turned over to dealers, independent dealers.

Q You mean independent jobbers?

A Yes.

Q In other words, we did not market naphtha?

A We never made it a policy, no.

Q MR. FRAWLEY: It is something you bought?

A We purchased it and sold it to these companies.

Q This is a manufacturing product?

MR. PLOTKINS: No. In this case is it not the fact, Mr. Stanger, that we purchased this for the Artic Oil Company who wished to market naphtha in competition with other companies?

A Yes, we sold the bulk of it to the Artic Oil Company. I haven't the figures here.

Q MR. FRAWLEY: It is an isolated thing?

A Yes, it is an isolated thing. We purchased it and sold it, merely a marketing proposition, I would say.

Lamp kerosene	15,177	.588
Naphtha	169,721	6.572
Fuel Oil	181,824	7.041.

I might add a word of explanation. That i by-product and the greater part, if not all of that, wa. sold to cities and municipalities for application to road beds.

Q MR. FRAWLEY: That is this fuel oil?

A Yes.

Q It might just as well be called road oil?

A Yes, you could call it road oil.

MR. PLOTKINS: Road oil and coal spraying oil.

J. Stanger.

MR. FRAWLEY: Not a fuel?

A No. Total gallons % of Total

2,582,355 100,000

Now, of the above total gallonage, that is, 2,582,355, 886,622 gallons were sold to other companies, leaving a balance of 1,695,733 gallons sold through Lion Oils own marketing system; 181,824 gallons of this being fuel oil sold mainly for road oiling purposes.

At this point we wish to explain the company's method of distribution of its gallonage and the type of dealers comprising the distribution system.

1. Company owned distribution centres. These are stations owned and operated by the company supplying retail and bulk trade. The stations are operated by full-time salaried employees and are located in the following centres:-

Calgary	--	510 - 9th Avenue East.
Red Deer	--	Village of North Red Deer.
Edmonton	--	10609 - 104th Avenue.
Refinery	--	Plant Sales.

I might say, when we say "operate by the company" we mean we assume the full expense. The men merely work for us and all expenses, administrative and everything else, is taken care of by the office.

The plant bulk station, which also makes tank truck and tank car shipments, has storage facilities to take care of all requirements. In the Calgary and Edmonton bulk stations, the storage is of the underground variety, each station having a storage capacity of approximately 13,000 gallons. Our Red Deer station, erected in April, 1938, made a departure from the underground storage tanks

and erected two 7500-gallon overhead storage tanks. This was proved a very expedient way of handling large gallonage at a point such as this where electrical power was not available to operate gasoline pumps for loading.

Q MR. PLOTKINS: What do you mean, that electrical power was not available for pumping?

A The station is situated a little north of Red Deer and there is no electric wiring to that part of Red Deer at all. We are endeavouring, I believe, at the present time, to conduct negotiations regarding such electrical power. But we have found that this type of overhead installation, as far as service to the customer, is concerned, is every bit as fast if not faster than an electrical pump with underground storage tanks.

Q That is one of the points I want to bring to the attention of the Commission. You say "if not faster". What has been our experience. Is it not considerably faster to give service?

A Yes.

Q And safer?

A Yes, it would be safer in the fact there is absolutely no electricity in the vicinity or any machinery or anything of that nature where you could get an electrical spark. It is a pure gravity feed from overhead tanks, 2 inch lines, and I believe a drum is filled in a minute.

Q Can you tell us what has been taking place with the Fire Commissioner in the Province in connection with safety measures in the distribution of gasoline and its related products, if you can?

A The Fire Commissioner's office has issued tentative regulation

J. Stanger.

covering the handling of gasoline, both from warehouse and underground and overhead installation, and one of their rulings or tentative rulings, was to the effect that all gasoline must be stored in underground storage tanks, which, as a matter of safety, seems hardly credible, due to the fact that underground storage, you need for bulk an electric pump which would, in my opinion, be more of a fire hazard than the overhead gravity distribution where there is no electricity in connection with it at all.

Q Why did we locate in the Village of North Red Deer and put up overhead tanks?

A I am not quite, right offhand, clear on that point now.

Q Well, I will deal with it later.

A Yes.

Q There is at the present time a series of regulations for the purpose of making distribution, the handling and distribution of petroleum products safer to the public?

A Yes.

Q And there is at the present time a tentative list of regulations that are very stringent?

A Yes.

Q We will deal with them later on?

A Yes. They would, if they were put into effect, have an extremely serious effect on the gasoline business.

THE CHAIRMAN: And there is also the suggestion that there is greater deterioration in overhead tankage?

MR. PLOTKINS: Yes, we will deal with that.

Each station also carries a large stock of lubricating oils and greases, both bulk and canned, as well as tires, batteries, and accessories. Each distributing centre effectively serves a definite territory with direct

deliveries to consumers being made through a third method of distribution described below. That is, that is our aim to establish these distributing centres at points where they can easily and economically serve a certain surrounding territory.

2. Independent dealers with own facilities acting as authorized Lionoil agents.

I might explain our term "independent dealers", they are in that none of these dealers are tied to us in any way, shape or form, with the exception of an equipment contract or a consignment agreement, which have provisions in them for the termination of the agreement. There is no endeavour on our part to make it impossible for these dealers to deal elsewhere.

Q THE CHAIRMAN: You do not have what has been termed "undivided dealers", Or do you mean that while they may be undivided for the time being they can sever that relationship on short notice?

A That is the proposition. I think the term "undivided dealer" is more applied to retail service men. All these are bulk accounts, many of them having retail facilities but not all. These dealers cater to the bulk and retail trade and are located in the following centres:-

Bashaw	Bawlf
Bentley	Byemoor
Calmar	Champion
Crossfield	Dickson Corner
Dovercourt	Eagle Hill
Eckville	Falun
Garfield	Harmattan
Huxley	Irricana
Kingman	Kitscoty
Legal	Lyalta
Markerville	Michichi
Morrin	Morinville
Ohaton	South of Ohaton
Orleans	Pibroch
Rimbey	Rocky Mountain House
Rowley	Stony Plain
Sylvan Lake	Trochu
Vulcan	Westlock

Q MR. PLOTKINS: What is our policy in connection with going out and establishing dealers. Do we go out and attempt to take away from the British American or from the Imperial Oil or from some other company an outlet already established, or what do we do?

A It has been the general policy to build up, if possible, our own dealers, or to deal with a type of dealer that you might really call an independent in that he does not wish to tie himself up to any company and who wishes to be a dealer in his own name. We have found that as we deal on our own basis - by that I mean we do not blindly follow any other oil company's method of distribution or handling accounts, and dealing on our own basis we find it and we hope to obtain if possible our own dealers who have probably never dealt with another company, and endeavour to get them to deal our way. Which, in the main, satisfied them very, very much instead of endeavouring to steal, I may say, other companies' accounts, wherein it would be almost necessary for us to deal with them the same way as the previous company had.

Q In other words, we take a man that has not been in the business, in the main that is the type of gentleman who we have, that has never been in the business, and we make him a proposition to deal in our products?

A Yes.

Q On our terms, satisfactory to him?

A Yes.

Q MR. FRAWLEY: Now, Mr. Stanger, I want to pursue this with you. I am concerned with knowing what the physical situation is at each of these towns. I am not

concerned for the moment in the nature of your relations with your agent. But take the first town of Bashaw. Does that mean if we went to the town of Bashaw now we would find an Imperial station and, perhaps, a B. A. station and a North Star station and what would we find physically, as far as your company is concerned?

A These centres mentioned are the nearest town to the dealer. In certain of them in the actual town you would find a Lion Oils outlet. Another group of them you would find somewhere, in the case of Bashaw, in the close proximity to Bashaw and serving that district, an oil dealer with his warehouse and probably drum stock, and very possibly our goods on consignment, and he would be serving his community from that basis.

MR. PLOTKINS: In his own name?

A Yes.

Q Not as Lion Oils. You would not find a Lion Oils branch or an Lion Oils agency?

A No. We deal through these independent dealers.

Q Who is the agent at Bashaw?

A The agent's name is Ernest Delew.

Q He is an independent purchaser of petroleum products and markets them in his own name?

A Yes.

Q Is that so in the case of Bashaw. Just think. He is a consignment account?

A In the case of Bashaw, with Mr. Delaw, he has a consignment agreement with our company, which can be terminated in thirty days, and consequently as he is selling our goods he uses our invoices for the sale of them. His dealings

other than that are entirely independent of us in that he purchases his product at whatever distribution station, Red Deer, Edmonton or Calgary, he wishes to choose, and transports them and sells them to his customers.

Q And why is it that we insist that he uses our invoices, apart from the consignment feature?

A The main reasons is the regulation laid down or imposed by the Fuel Oil Licensing Department.

Q In order to account to the Department properly for the sales

A Yes.

Q MR. FRAWLEY: Does Mr. Delew sell some of yours and some Imperial Oil products?

A No.

Q He just sells nothing but Lion Oils petroleum products?

A Yes.

Q Has he got premises. He has a warehouse there?

A Yes.

Q Has he some underground storage?

A No, not in that particular case he has not.

Q That is a drum station only?

A Yes.

Q Whose drums are they that he uses?

A They are Mr. Delew's drums.

Q He has no stock there?

A Yes, he has consignment stock.

Q That is in drums?

A That is in drums.

Q Where are the drums filled?

A The drums are originally filled at whatever one of our distributing centres he wishes to use.

J. Stanger.

Q I am only interested to know and, perhaps, you could help me, and perhaps this is not the statement I am interested in, but I am interested in knowing to what extent, in case it may be of interest ultimately to the Commission, to what extent there is duplication, and you are duplicating the Imperial or the Imperial duplicating you at Bashaw. That being my problem to place that kind of evidence before the Commission or should we make the gentleman at Bashaw the Lion Oil distributing point?

MR. PLOTKINS: No.

MR. FRAWLEY: I have some information, perhaps, from you - and I have not all my files in front of me and, perhaps, I should go and get them - but you gave me a list of stations and after a great deal of care and cross-checking you gave me a list of the points at which a member of the public could walk in and purchase Lion Oils petroleum products at wholesale?

A Yes.

Q I call that for my purposes a wholesale outlet?

A This is, I believe, the exact same list. Possibly we have a point here, Dickson Corner mentioned, where an agent is an independent dealer, although he buys his supplies from us and he sells in his own name.

Q You think this is the statement which was supplied by your office to me for the purpose of showing in all the various districts in Alberta where duplication, if any, exists?

A Yes, but I would say that these are points not necessarily in the town itself but in that district.

Q Yes?

A Where there is stock of Lion Oils Products at all times and

where the man concerned handles only Lion Oils products, and where the prospective customer can go or 'phone at any time and obtain products by wholesale.

Q That is just what I want. Thank you.

Q MR. PLOTKINS: I may pursue that to make it clear to the Commission. Why does Mr. Delew carry a small stock. How big a stock does he carry there?

A He would carry a stock of approximately 20 drums.

Q Is it not a fact in the case of this Mr. Delew that outside of this small stock that all his sales are made direct by taking delivery from the refinery or some other distributing centre making deliveries direct to the consumer?

A That is in fact what would probably be the situation.

Q And that the only reason he has 20 drums or so is in case of emergency when he is away and some of his customers may want a drum and he then provides a small stock at some place in his district so that his customers can go and get the odd drum?

A Yes, we have really supplied him with the stock with that idea in mind. It being intended that his accounts would buy - as we later point out here, and transport our products direct from the refinery or distributing point to his customers, and there would be a possibility that he could not at all times supply the demand as he would have none on hand. Therefore, as he is selling our product and as he is dealing with us 100% we have provided him with that stock to take care of that emergency.

Q Is it then duplication in your opinion with someone else's bulk station or facilities at Bashaw, or is it not under our system a direct connection between the consumer and the

J. Stanger.

refinery or marketing company through Mr. Delew as cartage agent?

A As far as duplication in the sense that there is a large amount of money tied up by several companies and in this case including our own, which supply, which money merely being a burden, that is to say the turnover is not sufficient to take care of the investment and, therefore, the investment is merely a burden, I would say no. But it is duplication in the sense that a customer in Bashaw can obtain his products from Lion Oils as easily as he can obtain it from the Imperial or anyone else.

Q MR. FRAWLEY: And vice versa?

A Yes.

3. Truck distribution agents acting as sales and delivery agents of Lion Oils Limited. This type of distribution makes possible delivery direct to the consumer at the minimum cost from the refinery or distributing centre. Being located in the heart of the community which he serves, this agent can make frequent deliveries in small lots as required in remote districts at the lowest possible delivery charge. These delivery agents are vitally interested in the distribution of petroleum products as this freight constitutes a substantial part of their income and enables them to truck all other commodities on a more economical basis due to increased volume.

Under this method of distribution, a complete coverage of new or remote districts is made possible and probably more feasible than by any other method and the costs to the consumer become comparable with costs in established areas.

J. Stanger.

We will extend this type of service to communities not now served as soon as conditions permit. The main obstacle to the extension of this service is restrictive governmental regulations.

I might at that point add that the main obstacle to extending this service is the restrictive Governmental regulation. I particularly refer to the Fuel Oil Licensing Department whom we have for the last two or three years, or I guess ever since the legislation was put into effect, been haggling with, that is the best term, as to whether or not this type of distribution, agent, truck distribution agent, to give him the right term, will be authorized by the Fuel Oil Department to deal in the oil business.

Q MR. FRAWLEY: You appreciate, of course, that the other companies have protested very strongly to this Licensing Branch that these people should not be licensed, that they are just consumers. It is not just caprice on the part of the Licensing Department?

A No. I did not wish to point that out. What I meant more by "haggling" is that they have not taken a firm stand in that they have said "You cannot do it or you can do it", they have at times indicated that was fine and at times not. In the present year they said it was fine if we provided them certain information concerning these gentlemen, which information we had.

Q They have licensed many of them notwithstanding the protest of the major companies?

A Yes.

Q And the protest has been consistent. When I say "protest" I do not know anything about your operation and, perhaps,

you do know more about it than I do. But you are aware that these companies have been protesting that these gentlemen who have been licensed are in one way of looking at it merely consumers?

A I do not know just what the nature of the protest is. As far as them being consumers. But they probably have protested because, after all, we were getting a little more of their business.

Q I must not press you too far because I do not know what these protests have been. But I merely suggest that the hesitation to licence all of these people has, perhaps, been due to the representations from the other companies?

A Possibly.

Q That they are not the proper subjects of licence?

A Yes.

Q And in spite of that there have been many licences granted?

A It depends. At any point where we were keeping consignment stock last year, that is 1938, they did license them. But this year they intimated and asked us to supply similar information on whether or not there was consignment stock there, and we supplied all that information but to date they have not actually issued us a wholesale licence.

Q What happened last year was you did get a licence issued?

A Yes, in that way we did.

Q But so far you have not and-----

A No, it is debateable.

Q MR. COMMISSIONER LIPSETT: What exactly is this system of these truck distribution agents?

A I will point it out in this way. I think it arose from the desire, probably four or five years ago before there were many independent companies, that the Alberta oil

consumer, all the individuals, men who felt that instead of paying the local major company, the bulk agent, a certain price for their product which they, and I suppose they still do, think it is high, that they would be better off to go to their local trucker----

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That they would be better off to go to a local trucker and give him their drums, a certain percentage of them had their own drums and send them into Calgary to a small refinery such as our own and get him to purchase for them their supplies and truck it right out to them; Naturally this truck man through the competitive basis, and it entails on his part no amazing amount of overhead, his overhead is rather low and low in comparison to the price charged by the bulk stations when they are figuring in cost of wholesaling and everything.

Q Do you know if the local man with the truck goes around and solicits orders and then when he gets enough orders he brings out a truck load?

A It works both ways. There is the type of man, the trucker I am speaking of, he feels that that is one way in which he can supplement his income, if not to make it his main business and he goes around and solicits orders for gasoline which he trucks out to them and there is the other type of trucker who is coming into town and a neighbour will say to him or a farmer will say to him "Will you take in my drums and fill them" and he says "Fine".

Q MR. PLOTKINS: That is the regular cartage agent?

A Yes.

Q And that is the main type we are concerned with?

A Yes.

Q In other words there is practically a cartage agent in every district today?

A We have a cartage agent in every district in the ter-

ritory we are serving.

Q Yes, but there is, apart from, outside of the mountains, I am talking about in the farming district?

A Yes.

Q You can find a man with a truck that makes it his business to take orders for delivery of products or goods?

A Yes.

Q And the farmer can go to that man and say "Bring me a drum of gasoline , here is the money, here is the drum, here is the coupon", just the same as he can say "Bring me 100 pounds of flour"?

A Yes.

Q So that is the type of man we are referring to that, as you say, seems to have found it more profitable to go beyond that and to solicit?

A Yes.

Q But would they not solicit other cartage just the same?

A Oh yes.

Q So there is no difference between soliciting cartage in the form of cattle, or hogs, or bringing in coal, or picking up hides, than there is soliciting business in the form of bringing out gasoline?

A No, he merely solicits business. He realizes, and it is especially true, that the bulk of trucking done in the farming communities is from the farms to the City, that is he can always find a load of wheat, hogs, cattle to the city, but he has a very hard job finding a load from the city back to the farm.

Q Yes?

A And gasoline is one product that he can take from the city to the farm, making it a two-way haul for him.

Q And that is the effect of this new development in the last four or five years where there is a delivery or cartage agent in each community, what is the effect on price of commodities to the farmers?

A Well the main effect would be to reduce the prices due to the fact that there would be competition in that area that there probably has never been before, that is to say in a small town there might be two bulk stations and if they were major company stations or even if they were probably owned by the jobber companies, the price would be fixed and maintained the same between the two of them: they would each have the same price and the farmers could have really no choice but to purchase from them; there would be nothing else to do until he either thought of it or the cartage man thought of the idea of going into the city and purchasing, not from us, but from any independent oil jobber, any independent oil refinery, purchasing the farmers' gasoline supplies and taking them direct to him in which case the trucker, an ordinary human being, would figure a fair cartage charge for his work and the surprising result would be that the farmer would obtain his gasoline cheaper than he could have purchased it in town, because undoubtedly, especially up until the last year or two, the rate that would be charged by the small trucker would be below the differentials set by the major companies and

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the overhead costs would be less for doing that trucking.

Q Yes, so quite peculiarly for the first time the farmer found himself in the position to send his order direct through the cartage agent to the small refinery or to any other distributor, he had a choice?

A Yes.

Q Of a product and a price in the city?

A Yes.

Q And we know that there is more competition in the cities than there is in the country, is that not a fact?

A Yes.

Q Why is there more competition in the city?

A Well it would be a centre, I mean in a City such as Calgary where there would be major oil company refineries and the independent oil company refineries and where a man could come in and could purchase from anyone of them, naturally there would be competition.

Q And the net results to the farmer would be being able to send his order, his drums and his money, to Calgary, and that would permit him to buy at any one of these?

A At any place.

Q Any place in the city?

A Yes.

Q And to eliminate his overhead incidental to redistribution through the country points?

A Yes.

Q Now as a result of that situation was there not the fact that distributors sprang up in the city that disregarded

the country distribution system and its consequent overhead?

A Yes, that is a fact that during the last two or three years several, I might, I do not know whether it is proper to mention the name or not.

MR. FRAWLEY: Oh yes.

Q MR. PLOTKINS: Yes, name the name?

A I was thinking of Oughton Brothers whom I know have no distribution system outside of Calgary where they are a jobber company purchasing their products and offering them for sale at a certain price and the result has been that a large number of farmers and truckers have come in direct to Oughton Brothers and purchased their requirements.

Q And we have had testimony on Friday here from Mr. Becker and the Becker Refineries is another company operating on that basis?

A Yes, I think that is their system.

Q So that the farmer for the first time has found himself in the position where he can purchase his products at a considerable reduction over the local tank waggon price?

A Yes.

Q MAJOR LIPSETT: These truck agents, do they keep any supplies at all or do they just simply go down to the refinery or the distribution point and get whatever they want to fill their orders?

A Well the point is really clouded. You understand it is a new venture really and it depends so awfully much on each independent individual man just which way he handles it. For a lot of them it is purely a matter of

trucking. Others, especially in the depression years no doubt, found that the trucking of hogs and cattle is probably not as profitable as it used to be; trucking gasoline is very profitable, with the result that they solicit orders and endeavour to make a connection with an independent or a major company, mainly independent, because the major companies have their own established point, with an independent jobber or refinery, makes connections for the purchase of his gasoline or supplies or even representing them in that district; in other words he could, as we have had men, grow from a trucker of the odd drum into an established oil outlet where probably he may be doing more business than the bulk station in town.

Q He comes down then with an order from his customer, he goes to the refinery and buys at even, does he buy at the same price as the dealer or the jobber or what?

A The general effect has been to give them the dealer discount; the reason for that is quite obvious in that they are men, with drums, on their trucks, it is perspective business, very much, I mean very vital perspective business, going around to the point, and it is obvious that an independent jobber company would say to him "Now if you will purchase all of your supplies from me and take them to your customers I will make it worth your while". We have found by experience that that is the best way to handle it from our standpoint and any other company operating on that basis they did the same thing.

Q THE CHAIRMAN: They get what, dealer dis-

counts?

A Yes.

Q MR. PLOTKINS: We are dealing with that a little later on. Now this cartage man, how often does he usually serve his district?

A How do you mean how often?

Q It is a regular established cartage route, this number three basis?

A Yes.

Q And he serves his customers at regular intervals?

A Yes, the majority of them have it on, that is at least the man if he is sensible and has a bit of intelligence to organize his business, they come to town such as these coming to Calgary once or twice a week generally on a regular day.

Q So that the farmer and the consumer in that district can obtain small amounts of gasoline, that is one drum or two drums at will?

A Yes.

Q He does not have to, if he happens to be in financial circumstances where he cannot buy four or five drums, he can buy one drum or a half a drum?

A Yes.

Q Or five gallons of oil?

A Yes.

Q Or a small tin of grease, so for all practical purposes that farmer has the advantage of having his products delivered to him in small quantities even?

A Yes.

Q At very low cartage rates?

A Well I would say fair cartage rates. They are not low in comparison with the cartage rates but in comparison with the oil company differential they are low.

Q Let us deal with that. When you say oil company differentials, it has already been explained here that they mean the cost of freight, representing the cost of gasoline freight from Calgary to the point in question in tank cars?

A At the present time they do represent that. I believe two or three years ago it was on a different basis.

Q I beg your pardon?

A I believe two or three years ago it was on a different basis.

Q Yes, but today, we will take Red Deer as a point, until these new rates came into effect, or probably Red Deer is not a very good point to take, but take Olds, Olds is 60 miles from Calgary?

A Approximately.

Q And the freight rate, the tank car freight rate to Olds is what, do you know?

A I have not got that.

MR. FRAWLEY: You mean----

MR. PLOTKINS: We are going to show how much difference there is in the case of Olds.

MR. FRAWLEY: We know it is well established that all the prices in Alberta except in the Southern part of Alberta are Calgary plus rail freight

rate.

MR. PLOTKINS: Yes, but to the farmer that does not mean actually what you think it means.

MR. FRAWLEY: This is 1.7, that is the last we have.

MAJOR LIPSETT: What is that?

MR. PLOTKINS: This is 1.7 cents per gallon.

MR. FRAWLEY: Take Olds, use the 22nd of June price list.

MR. PLOTKINS: What is that, 1.7?

MR. FRAWLEY: I will give you that, the standard gasoline it is 16.5 and subtract that from 18.2.

MR. PLOTKINS: 1.7.

MR. FRAWLEY: That is right.

Q MR. PLOTKINS: 1.7. Now that puts the gasoline or the product in Olds in the bulk station?

A Yes.

Q And the farmer and the dealer or the agent rather of the company owning that outlet still has to take it out of the bulk station tank and deliver it out into the country?

A Yes.

Q Now in the case of these truckers or these cartage agents we are now dealing with, what is the situation, do they not come , do they come in, they go to the farmer on their regular route, in other words they do go out of their way?

A No, I do not think they would go out of their way.

Q But when they pass on the route and they pass a farmer and the farmer stops them and says "Here is a drum or two drums and I want to bu so much gasoline from the Lion Oils in Calgary", that cartage agent, he goes into Calgary, gets his drums filled, and takes it right back to that farmer?

A Yes.

Q What does he usually charge him, what is the cartage rate?

A If they set them themselves?

Q Yes?

A To a point like Olds?

Q You know the distance and you have an idea?

A 60 miles, a cent and a half to 2 cents.

MR. FRAWLEY: And 1.7 is the freight rate.

Q MR. PLOTKINS: Now that 1½ cents or 2 cents is a competitive cartage rate; in other worus that cartage agent has to compete with other cartage agents?

A Yes.

Q There is no law or railway commission or any Provincial Commission that fixes cartage rates to farmers?

A Oh no.

MR. FRAWLEY: There used to be.

MR. PLOTKINS: Yes, but they failed to enforce it because it was not practicable.

Q MR. PLOTKINS: Now as a result of that then, the farmer is not at the mercy of these cartage agents when he comes to finding out how much he will charge him for delivering to him a drum of gasoline or other products from Calgary to his place?

A It would be on a competitive basis.

Q I am stressing that to the Commission because that is some of the points we want to cover.

Q MAJOR LIPSETT: How can it be on a competitive basis if this truck man is your agent and will go down and buy your gasoline, would you give other truck men getting it the same price?

A Well our policy and that point has been that if one man wishes to recommend our product to his farmer customers, we would give him an exclusive right to do so, but if the ordinary trucker wishes to come in and wants a couple of drums and pay the established price, we have no objection or have no way of objecting; our goods are for sale and they are open to everybody.

Q Would the average cartage man get the same price?

A No we would, if we make a deal with one cartage man, to extend him the dealer discount, we would give him that privilege exclusively for whatever district he would cover.

Q Then the other truck man in the district could not buy the gasoline from your refinery at the same price?

A No.

Q Then how is he able to compete?

A Well we are speaking of competition so far as his trucking rate is concerned.

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Q Supposing he gets 2 cents or 1 cent a gallon at the refinery, cheaper price than the other truck man, the other truck man would have to be that much lower?

A No,the cartageman that was receiving the 1 cent in a majority, if not all of the cases, that would effect his price to the farmer, he would take the Calgary established price and add on to it whatever he felt was his trucking rate which would be competitive with the other agents' trucking rate and whatever he received in the way of a discount would be his through looking after, establishing and recommending our products.

Q THE CHAIRMAN: Over and above his trucking rates?

A Yes.

Q MR. PLOTKINS: But is that the fact, Mr. Stanger, does he not use that cent or a cent and a half or 2 cent in order to meet competition of other truckers or other companies?

A Yes, where the situation occur as it does very very often occur, there are two or three truckers, each dealing with a local independent company, and naturally they start giving away a small portion of their discount or cutting down on their trucking to meet competition, the same as any other business.

Q MAJOR LIPSETT: The competition then would be with some other refinery?

A That would be the size of it.

Q It would not be competition with another trucker?

A No, I think the point we are trying to make there, that

is to say the trucker dealing with us charges his fair trucking rate over our Calgary established price and his trucking rate would be competitive from the very fact that there would be two or three truckers there and if he had it away up in the air there would always be somebody to compete against him. The point we are making is that the trucker does not hold out on the farmer.

Q MAJOR LIPSETT: Can the other trucker get your product?

A Yes, but what would normally happen and you can quite understand it, if another trucker wished to truck that and if he wished to, and he found that there was already one man trucking gasoline for Lion Oils and one man for Becker, he would probably go to a third oil company and make a similar deal with them that the other two fellows got.

Q The competition really then would be between the refineries?

A It would be between the oil companies.

Q Because the other trucker could not get your gasoline at a discount?

A No, that is right.

Q MR. PLOTKINS: On that point, Mr. Stanger, have we not evolved into this particular policy of confining our products to one man due to the demand and pressure and orders from the Licensing Department at Edmonton?

A Yes, that is true.

Q Previous to that we had as many as three or four, in fact we did not confine it to any particular cartage agent, is

that not correct?

A Well the Government has endeavoured to see that there should only be one license established in any particular town to any one company and that precludes our having a deal with any more than one man although we have felt on that point that it is dependent upon the trucker just what territory he serves, if he serves a small territory, another man may want to wander quite a long way away.

Q So what we have done, we have made representations to the Licensing Department that due to the effect of geographic conditions such as rivers, bad roads and other things, land marks, preventing one trucker we will say in Olds covering that territory on the same basis as the railway covers it?

A Yes.

Q And in order to adequately serve the customers we have in the old districts it should be necessary to do it to three or four cartage agents that cover certain districts?

A Yes if you are considering Olds, one may be West of town, and one may be East of town and they have their own particular reasons for not going over into the other man's territory.

Q And the Department has absolutely refused to consider that?

A Well in fair ness to them they probably do not understand the situation.

Q We explained it to them, didn't we?

A Well we explained it to them.

Q So that that is the reason why we are now confining ourselves more or less to one cartage agent?

A Yes, that is the reason we set up that policy.

Q MAJOR LIPSETT: Is that license applied for by the trucker or by the Lion Oils?

A There is considerable discussion there, that is pretty nearly another question of itself, in regard to the license, the Wholesale Fuel Oil License. At one time in 1936 any trucker without a great deal of trouble for a small fee could obtain for himself a license to deal in fuel oil but subsequent to that-----

Q MR. FRAWLEY: A license to deal in fuel oil?

A Yes.

Q Under the Fuel Oil Licensing Act of 1936?

A Yes.

Q That was under the Fuel Oil Tax Act?

A Well he was fully, so far as we were concerned, and I recollect this very clearly, he was authorized to transport and purchase for resale fuel oil. He could purchase it from us in his own name.

Q Yes, but Mr. Stanger, the Fuel Oil Licensing Act of 1936, rightly or wrongly, was based upon the proposition that outlets were to be licensed----

A Probably we may be confused there, I am speaking from memory, it may have been in the early part of 1936.

Q Well the Licensing Act, the Fuel Oil Licensing Act came into effect in April 1936?

A I see.

[illegible]

[illegible] : [illegible] were applied for [illegible] by the [illegible].

There [illegible] reasonable [illegible], but it pretty [illegible] [illegible] [illegible], in regard to the [illegible] [illegible] Fuel Oil Licenses. At one time [illegible] any trucker without a great deal of trouble for a small fee could obtain for himself a license to deal in Fuel oil but subsequent to that------

[illegible] : [illegible] to deal in Fuel [illegible]

A. Yes.

Under the Fuel Oil Licensing [illegible]

Yes.

That was under the Fuel Oil Tax Act [illegible] fully, so far as we were [illegible], if I remember this very clearly, he [illegible] licensed to transport and [illegible] for resale [illegible] oil. He could [illegible] from us in his own name.

Yes, but [illegible] January, the Fuel Oil Licensing Act of 193[illegible] rightly or wrongly, was based upon the [illegible] that [illegible] were to be licensed------

Immediately [illegible] may be confused this [illegible] memory, [illegible] have been in the [illegible] [illegible] the [illegible], the Fuel [illegible] [illegible] [illegible] Act

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Q I simply put it to you that the contention there was that the outlets were to be licensed, wholesale and retail outlets were to be licensed?

A That is the way it is at the present.

Q Yes, because the statute is the same and your difficulty is to get away from licensing, attempting to get away from licensing, at least, virtually licensing moving vehicles on the highway, trucks?

A I recollect very well that in 1936 there were a large number licensed by the Department, truckers that dealt in fuel oil and as I say purchased in their own name, that is as far as we were concerned, we were fully authorized to sell a gentleman with a fuel oil license on his truck petroleum products. He bought them in his name and went and sold them wherever he wished and to whoever he wished, or in whatever name he wished.

Q Well, I am glad to hear what you say. I suggest that was an out-cropping of the Fuel Oil Tax Act with a view to having as much control as possible over the sale of gasoline, for the purpose of revenue producing purposes?

A It might have been in 1936.

Q Now let us explore that. That is this famous Lion Oils marketing system that we have heard about from Mr. Halverson. He voiced some opinions about it, but let us explore it. It is all very complicated in one way and I will see what I can do in making it clear. I am a trucker. I go to the Department and get a Public Service Vehicle license, and I think that I want to go and tear up the highways like the rest of them. I come down to the refinery and I say I am a

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licensed trucker and I have an order here for John Jones in the Olds district and here are the coupons and all the rest of it. You are not selling me that gasoline at all. You are letting me have the gasoline I suppose and for convenience's sake I am paying for it?

A Yes.

Q I take it to Olds and I deliver it to John Jones and I charge him so much a barrel for trucking it for him?

A Yes.

Q I do not want any and I do not need any and perhaps should not have a fuel oil license under the licensing Act?

A We have protested to the Government on that very thing that you have spoken of.

Q Now that is clear?

A Yes.

Q That particular part of an operation, no one would suggest that particular trucker should carry a license under the Fuel Oil Licensing Act?

MR. PLOTKINS: Ask him if that is the ruling of the Department?

MR. FRAWLEY: Well I would like it all. Nobody suggests that particular gentlemen should be licensed under the Fuel Oil Licensing Act, do they?

A I would not suppose he operates under his own name.

Q That is the first operation I am speaking about. That is the first, surely he is just a carrier?

A Yes.

Q He has a Public Vehicle license?

A Yes.

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Q There is not any commission to say how much he should charge, there were, but they were abandoned. In any event, it does not require any retailers or wholesalers license to do that, surely?

A No.

Q So the next step is that that trucker goes out and puffs up some business for the Lion Oil. He first comes down. He thinks he has an opportunity of selling your goods in his district and he says "I would like to tie up with the Lion Oils and buy your product."

Q MR. PLOTKINS: Let us just see what exactly happens, and not assume. What happens? How do we contact the farmer customers? I would like to build it from the first, to the point where the trucker comes in and gets delivery. What do we do? Don't we send out printed price list

A Yes.

Q Over the whole marketing territory?

A Yes, our policy has been to advertise direct to the farmer.

Q As a result, what happens?

A It works out in this manner. The farmer at a point, we will say Olds again, receives our price list showing him the drum prices in Calgary and he probably compares them or has compared them in the past with local prices and decides he would like to purchase his products direct from us. If we have established transportation in there, we recommend him to contact that agent. If we have not, we tell him to get hold of his local trucker.

Q That is what we put on our advertising. We ask him to, if he wants to buy our products, to contact any trucker

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or cartage agent in his district?

A Yes.

Q And give him the barrels and the money and the coupons and get it in his own name?

MR. FRAWLEY: In whose name?

MR. PLOTKINS: In the farmer's own name.

Q The result is that the first contact we have with the cartage man is through our customer or at least our intended customer?

A Yes.

Q Sending him down for some of our products?

A Yes, if the farmer did not ask for Lion Oils goods he would not have to see the trucker.

Q And therefore our advertising contact is established with the farmer direct and then the cartage agent. It is not the cartage agent who comes in and wants to know what kind of a proposition we will make him?

A No.

Q It is only after the cartage agent finds we have established a demand in his district, then he is interested in seeing what he can do about making a permanent connection with us?

A Yes.

Q MR. FRAWLEY: So that you build up a public demand for your products in the Olds district?

A That is right.

Q And the farmer approaches the trucker?

A Yes.

Q Why should he approach the trucker in any other capacity than as a trucker?

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MR. PLOTKINS: He does not.

A I do not think he does.

Q MR. FRAMLEY: We still have the trucker a carrier?

A Yes.

Q No matter how much demand there is originating in the Olds district for your product, the trucker, the carrier, comes in to your plant and gets the goods, using the farmer's money or maybe advancing his own money and he takes the products out and delivers them and he is still a carrier?

A Yes.

Q Is that not the whole operation? To what extent is there any different step in this operation, and how is it in some fashion you people desire to have that trucker licensed as a wholesale dealer in fuel oil?

A I will explain it in this way, that in the first place our desire is not necessary to have him licensed as much as the desire to see that nobody prevents him from transporting our products. The Department has intimated that they would prevent him from transporting our products even in a carrier capacity if he has not got a license.

Q If the trucker has not got a license?

A Or is licensed by some manner or other. We have always contested and we have endeavored to contest that the trucker is merely a carrier.

Q I am very interested to know it is from the Department that the idea emanates that these truckers should be licensed as wholesale dealers?

A Yes. They do not demand that they are licensed, but they

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merely state that.....

Q THE CHAIRMAN: It is a condition precedent to their carrying oil?

A Yes, that they cannot truck oil without having a license.

Q MR. FRAWLEY: That is very much the same thing?

A Not a P. S. V. license, that is as a trucker.

Q MR. PLOTKINS: You did not conduct the negotiations in that respect?

A No.

Q And somebody else did?

A Yes.

Q And probably you had better not cover that?

A No.

Q You had better not cover that fully because we intend to deal with that. That is, we intend to show the negotiations and why and wherefore the Department takes that stand. Mr. Stanger did not conduct the negotiations, and he only gives you what he has assumed is the case. He does know, and it is a fact, is it not, that the reason we have been having having difficulty with the Department, with the Department, is because they make it a condition precedent?

A Yes.

Q That they must be licensed or recognized even though the law does not say so, before they will allow them to transport gasoline?

A Yes. The point I know is and it is very important to my Department, is, there is a very strong possibility they will not be allowed to truck gasoline even in a carrier

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capacity until they are licensed.

Q THE CHAIRMAN: Licensed as what?

A Under the Fuel Oil Licensing Act.

Q MR. FRAWLEY: As what, wholesale distributors of oil?

A There is a point there of whether or not they come under our license in view of the fact that the Government compels us to pay the fees on that gallonage sold. But as Mr.Plotkins stated, I am speaking from hearsay and reports I received, and I did not conduct the negotiations with the Department.

Q I do not want to press you any further than you can go of your own knowledge.

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You say that notwithstanding the trucker maintains and protests he is only acting as a carrier and he is only desirous of collecting his fees per barrel for delivery, he is not entering into a selling transaction at all in any way, nevertheless you say the Fuel Oil Licensing Department requires that particular kind of trucker to be licensed as a wholesale distributor?

A No, he is protesting he is not.

Q He is a trucker for my question. We will explore all that. It is in that fashion that this distributors, that these truckers become licensed as distributors?

A Yes, that is true.

Q So then we have a trucker wholesale distributor?

A Of fuel oil.

Q Just like the Imperial Oil agent at Olds?

A Yes.

Q And the B. A. agent at Olds, with large tanks and so on?

A Yes.

Q Well, that is very interesting.

Q THE CHAIRMAN: There has been a suggestion that this public carrier does not intervene at all. That the Lion Oils make an arrangement with any farmer who has any quanitty of oil to buy?

A Yes.

Q Whereby he gets a discount which would be given to an agent. Is there anything in that?

A Beg pardon?

Q I say there has been a suggestion before this Commission that it is a part of your system of distribution, not just

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simply with truckers in the way you have described, at least doing business with them in the way you have described, but you take any farmer in order to get his business and in order to provide him with a discount, you call him an agent, and create what has been suggested to be unfair competition under the cloak of setting up agents on the same basis as other refiners, which it is in truth under this suggestion?

A Yes.

MR. FRAWLEY: That is a very pertinent thing to discuss. Perhaps it has something to do with the requirements of licenses.

MR. PLOTKINS: Yes, and Mr. Stanger is not in possession of all the facts. Mr. Gilbert is, and we would prefer to have Mr. Gilbert answer that.

Q MR. FRAWLEY: Let us make one final approach from the standpoint of price. What is the price of Lion White gasoline, if I went down there with say two or three drums, just an ordinary consumer but I buy in drum quantities?

A At the present time 13¢ plus the Government tax.

Q It is all ex-tax I am speaking. So a consumer going to your own premises with his own truck pays 13¢ for it?

A That is true.

Q That is the posted tank wagon price?

A The printed posted tank wagon price, yes Sir.

Q Do I understand there is any departure from that? Suppose I am a consumer, transfer me to a consumer farmer in the Olds district and I go to the John Jones Trucking Company

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and I say "Go to the Lion Oil Company and get me half a dozen barrels of Lion White."

I am still buying it up there. He is just my licensed carrier?

A Yes.

Q I pay 13¢?

A You are a farmer?

Q I am a consumer-farmer?

A Yes, you would pay 13¢ plus whatever he charged you for his trucking.

Q He simply is a mere go-between?

A Yes.

Q He takes my 13¢ and he pays it to you and I pay him his fee per barrel for trucking it?

A Yes.

Q Discounts and that sort of thing does not come into that?

A No.

Q And no matter how steady he may be running between me and my neighbors and your refinery, there is no discount there?

A There is no discount whatever. The only possible discount he could receive would be if the trucker himself made a cartage concession.

Q The consumer, I am assuming, pays 13¢?

A He pays 13¢.

Q And the trucker gets no rebates or discounts?

A Yes.

Q THE CHAIRMAN: If he has a circle of farmers and he has the volume, then he gets a commission?

A That is true.

Q MR. FRAMLEY: But he is still a trucker,

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and after all it is gasoline today but it might be apples tomorrow?

A Certainly.

Q Where does the discount come in, between your refinery and this trucker?

A It would be reasonably obvious that if he is willing on his part.....

Q On his part, yes?

A To push our products.

Q He is doing a service for me. I am a consumer in the Olds district and I have not a truck of my own and I go to him and ask him to bring my gasoline out for me. That is the basic transaction essentially?

A Is it not a possible situation that you as a farmer will say to the trucker "I want you to bring me 4 drums of Artic Oil or White gasoline", and the trucker might equally well say "Well, I cannot go to all the small refineries in Calgary. I deal with the Lion. Won't you try their stuff?"

Q Right?

A And in order to, especially if it is a case where the trucker only makes his money out of trucking gasoline, it would seem to me, in my own opinion, to make sense to give him some inducement to push the sale of our products.

Q But you departed from my premise. He is a trucker, acting as a salesman. I was only putting it to you that he was a trucker interested in making his livelihood in deliveries of gasoline to me as a public carrier, like the Canadian Pacific Railway Company or any other carrier?

A Certainly.

J. Stanger

Q But you introduce another element. You say "We have got this trucker and we have made him a salesman . We have impressed him with the quality of our product," and if a farmer stopped him on the highway and told him to get him two or three barrels of Artic products, he would talk him out of it and get him to take Lion Oils products, and that you are going to do something for him and you are going to give him a discount?

A Yes.

Q You make him an agent-dealer?

A Yes.

Q I can see how close we are getting to the Fuel Oil License regulations, which I could not for the moment understand at all?

Q MR. PLOTKINS: In that case, why do we give them discounts? Is it because we like to or that we just want to throw some money around?

A My own experience is if we do not, somebody else does. That is possibly the first premise. And secondly, the amazing advantage to us if we find a reputable trucker and give him some commissions for handling our products. If he is a straight trucker, doing probably like the ordinary freight agent, and it is a matter of throwing it on one end and throwing it off the other, it is different. But if he is doing a large amount of trucking and we give him a commission - and I am speaking of the general oil industry because that is the situation not only with us but for every other oil company, he undoubtedly takes an interest in that company and instead of carrying all products he endeavors

J. Stanger

to see his customers satisfied with our goods so that he can truck for that account, it is almost inevitable he works into the position of a sales agent.

Q THE CHAIRMAN: Is there any limit as to the quantity before you give him a discount?

A Yes. We have various ways of doing that. It is a matter of judgment. What I mean to say, every trucker that comes in and asks us to appoint him immediately and says this and that, we would not do it. We endeavor to give it only to the man who we believe is going to truck enough gasoline that we feel he is entitled to it. And we generally set a certain figure. Probably at the same time, we give him a discount because he needs it before he has reached that figure. If at the end of the year it turns out that he has a very small trucking volume, we forget him the next year.

Q MR. PLOTKIN: Why do we give a discount? Is it not to meet the Oughten competition and the Becker competition or some other competition that do not recognize dealers on our basis?

A Yes, that is true. That is the whole situation as far as discounts in price is involved in this aspect. Last year to give a specific example, we were selling our Lion White gasoline for 13¢ to an agent who could purchase the same product from another company for 11¢.

Q You mean the same grade?

A Yes, the same grade.

Q A similar product?

A Consequently what the other company has merely done is to

cut the price, in other words, give a discount, and nobody could come under. So one of the main reasons why we give a trucker his commission or discount is certainly to meet competition, because in the first place he can probably go to any other company and obtain the same discount or a similar discount, or secondly he could go to a company that has a lower price for everybody and buy possibly cheaper than our price less his commission.

Q MR. FRAWLEY: Let me, for the record, let us take this farmer who lives out five miles from Olds and he wants Lion White gasoline. He uses this trucker of yours. He pays 13¢ plus the trucking freight. Just can you help us out by telling us what that farmer at Olds would pay on his farm for Lion White gasoline. 13¢ plus.....?

MR. GILBERT: It depends exactly on what.....

MR. FRAWLEY: Can you, without disturbing your presentation too much give me an idea what the average ordinary price at Olds would be, 13¢ plus what?

MR. PLOTKINS: Mr.Chairman,Mr.Stanger is in charge of the office.He never goes out, Mr. Gilbert is in charge of the field and we have a tabulation and we keep track of what these cartage agents charge their customers because it influences our business. He will be able to deal with these points. We could get him now to say what it is.

MR. FRAWLEY: Cannot you give me that one figure, and I will finish my question?

MR. GILBERT: It varies.

MR. FRAWLEY: Give me some idea. It cannot be so indefinite.

J. Stanger

THE CHAIRMAN: Stand up and answer.

A In that case, he would probably take the major company tank wagon at Olds and use that as the competitive figure.

Q That is 15.7 less 1½?

MR. GILBERT: The spread is 1.7 between Calgary and Olds.

MR. FRAWLEY: I want to get the Acto price at Olds of Imperial?

A 15.7.

Q 15.7 less 1½ is 14.2, is it not?

MR. PLOTKINS: Why less 1½?

MR. FRAWLEY: On Acto gasoline.

MR. GILBERT: That is with the competitive discount.

MR. FRAWLEY: 15.7 less 1½ is 14.2 at Olds. That is what the farmer in the Olds district would pay on his farm, delivered to him, 14.2¢?

MR. GILBERT: Yes.

Q I want to compare what is his money position if he has to get one of these truckers to come to your place and he pays 13¢ plus?

A In that case, he would not try and compete with Lion White gasoline.

Q Don't you try and develop a demand for your Lion White gasoline in the Olds district?

A Certainly, but not where it is impossible to sell against competition. Probably in that case our tractor gasoline which is just as good as Acto would fill the bill.

J. Stanger

Q Tractor gasoline is 14.7 less .2 and that is 14.50 the Olds price of tractor gasoline of the Imperial?

A Their price would be still 14.2. Their Acto is the tractor gasoline.

Q No, tractor gasoline is 14.7 less 2 and Acto gasoline is 15.7 less 1½? I am not taking into consideration the cheap tractor fuel. They have a product called tractor distillate.

A Yes. That is different. That is kerosene distillate.

Q All right, Acto gasoline, to take a comparable product. You now want me to compare Acto gasoline as against your - not your Lion White, but your.....?

A Tractor gasoline.

Q And what is the Calgary price of that?

A 11½.

Q What would that cost this man who is farming a few miles from Olds 11½ plus what?

A He would probably pay 1½¢ cartage.

Q That is 13¢ he would pay on his farm?

A Yes.

Q That is as against 14.2 he would have to pay for Acto gasoline?

A I think there is one thing would have to be taken into consideration. Last year the spread between Calgary and Olds was approximately 2.6. From Calgary to Olds. There was 1¢ differential between the city and rural sales. At that time they were offering the farmer a good cent cartage less.

THE CHAIRMAN: Perhapsyou can discuss it and put it on the record when we return.

(At this stage there was a short recess)

(Go to Page 12,524)

Q MR. FRAWLEY: Now, Mr. Stanger, I think perhaps you might just carry on, I have nothing further to ask, speaking for myself, with respect to that question of agency dealer. Mr. Plotkins assures me that so far as he is concerned he does not feel that you are able to discuss it with me and perhaps you feel the same way yourself?

A Yes.

Q Then we will discuss it with one of the other witnesses and will you continue with your brief?

A The total gallonage marketed by Lion Oils Limited in 1938 represents an increase over 1937 of 542,295 gallons. In 1937, however, over one half the gallonage was sold to other oil companies, that is the jobbing, leaving the direct sales for that year at a figure of slightly over one million gallons. The 1938 direct sales, therefore, represent an increase of 71% over the 1937 figures.

A large portion of Lion Oils gallonage is sold direct to the consumer through the truck distribution agents situated in all parts of the province with the exception of the territory south of Vulcan and the Peace River district. The territory south of Vulcan cannot be successfully handled from Calgary due to the low prevailing competitive prices which are a legacy from the time when the Coutts and Montana refineries supplied this district. However, this situation will be met by the contemplated erection of another bulk station in Lethbridge. The Peace River district, being inaccessible by truck, has not as yet been taken into the company's marketing territory. As stated later on, the company's

transportation system is based on highly organized truck distribution and territories which can only be handled through tank car shipments do not come at this time within the company's marketing areas. Figures reveal that approximately 32 out of every 100 gallons sold by Lion Oils Limited were delivered direct to the consumer through the truck distribution agents and the balance was delivered to the consumer at the company's bulk plants and stations.

At the present time our regular net dealer prices f.o.b. Calgary is as follows:-

Ethyl	-- 17¢ per gallon
Gold	-- 14½¢ per gallon
White	-- 11½¢ per gallon
Tractor Gasoline	-- 10¢ per gallon
Tractor Kerosene	-- 9½¢ per gallon
Diesel Fuel	-- 8¢ per gallon
Lubricating Oils	-- 15% discount
Greases	-- 15% discount

These prices are only varied when the gallonage is such that opposition makes it necessary for us to give a slightly better price, usually an extra ½¢ per gallon allowance, in order to retain this type of business.

Our general policy is not to endeavor, by devious means, to place the dealer in such a position that he is obligated to deal with us. The dealer

is at all times free to give thirty days' notice and sever his dealings with the company and consequently is extremely vulnerable to opposition companies. Thirty-six of these dealers are provided with a working stock of Lionoil products on a consignment basis, such stock being held in trust and the goods sold strictly on a cash basis.

Q MR. PLOTKINS: Excuse me for interrupting there, when you say "thirty days Notice" you mean on the 26 agencies?

A Yes.

Q The other is 24 hours?

A The others are 24-hour contracts.

Q The great majority of our dealers can leave us on 24 hours notice and we can discontinue with them on the same notice?

A Yes.

Q MAJOR LIPSETT: What are the dealers you refer to there, they do not go under the term of truck distribution agencies?

A Yes.

Q MR. PLOTKINS: They do, Mr. Commissioner, except they carry a consignment stock in addition.

A Yes.

Q MAJOR LIPSETT: Is there any difference between the two or is this just what you have been referring to as "agents".

MR. PLOTKINS: Yes, they are all agents, in Number 2 on Page 3, Mr. Commissioner, we have there, we show independent dealers without any facilities acting as Lion Oil agencies. Now there is no difference between the type

of the number 3 type which is on the bottom of the same page, truck distribution agents, with the exception that the truck distribution agents are not supplied with a stock, a small stock, but they both do business on exactly the same basis. You see, Mr. Commissioner, when we say "agents" we do not mean it in the term, we do not mean it in the same way that the major company means "agents" because these people actually buy and sell.

Q MAJOR LIPSETT: The truck distribution agents are not supplied with stocks?

A No.

Q The independent dealers with their own facilities do get stock under consignment?

A Yes.

Q MR. PLOTKINS: ...s listed on those points?

A Yes.

Q THE CHAIRMAN: Now which man can you dispose of on 24 hours notice?

A The truck distribution agent.

Q They get 24 hours notice?

A Yes.

Q And the ones above, 30 days?

A Yes, in the case of those.

Q Those on Page 3 you are speaking of now, is that right?

A Yes, well that is, this list there that have the consignment stock, there is the odd one in there who is an independent dealer who does not wish any assistance in that way, who prefers to purchase his own products for cash.

Q MR. PLOTKINS: So that, in general, Mr. Stanger,

those that have consignment stocks, we have a contract with them providing for 30 days notice?

A Yes.

Q And the other type of distribution agent buys and sells and those we furnish no consignment stock to, can leave us or we can leave them on 24 hours' notice?

A That is correct.

Q The 30 days' notice is only to cover the consignment stock?

A Yes.

Q He can leave us on 24 hours' notice?

A Yes, so far as the agency is concerned, yes.

Q All right.

A The company does not give credit, its entire dealings with the consumer and dealer being on a strictly cash basis. In this manner the farmer is not charged with the costs incidental to handling credit. In other words, with the majority of other oil compnies considerable credit is extended with the result that every purchaser must bear in the price he pays for his products a proportion of the cost of doing credit business such as bad debts, collections, cost of accounting, etc. Our customers purchase from us quality products at a cash discount price.

Q MAJOR LIPSETT: Just what does that mean?

A It explains itself a little further on, Mr. Lipsett, we explain it.

Q MR. PLOTKINS: All right.

A Lion Oils also has adhered to the policy of not loaning drums or equipment either to agents or farmer customers. We estimate the cost of extending credit and loaning drums and other equipment to be at least 1¢ per gallon and

our prices on farm fuels are therefore 1¢ less than would otherwise be the case. In some instances we sell equipment and drums to agents desiring such equipment to handle Lionoil products on a cost plus 10% and 10% basis to cover interest and handling. These sales are usually made on a straight installment plan and all payments are rigidly collected.

Q MR. FRAWLEY: I wonder, Mr. Stanger, if for convenience sake you could not give us some idea of your prices at, I do not care 15 or 20 points, I want to try and have something comparable if it is possible, unless I am just ----

A I will give you the prices.

Q Butting the wind, I would like to know, you speak about 1 cent off and I do not know, 1 cent off what?

A I can explain that; our prices at our three distribution stations, I am speaking of the drum price here.

Q Yes?

A Usually maintain 1 cent below the price charged by other companies through extending credit.

Q MAJOR LIPSETT: Is that the tank wagon price?

A Yes, our drums' price.

Q MR. PLOTKINS: Well is that entirely correct, Mr. Stanger, do you not mean that we allow 1 cent below whatever price we would fix for that product to take care of drums and equipment?

A Yes, that is the way it works out. We feel we should give them a consideration in price to take care of those things.

Q MR. FRAWLEY: I find it difficult, keeping

to a specific case again, Acto gasoline, at Bashaw, the Imperial price is 16.8, now what can you tell us about your price?

A Not an awful lot about that.

Q There is a man there with a small consignment stock and I am a farmer and I present myself at your man's place at Bashaw, what do I pay for that gasoline?

A I think Mr. Gilbert could answer that better than I can.

Q All right.

A The increase in gasoline gallonage marketed is also reflected in the increase of other sales, lubricating oil sales being over double that of 1937, and the sales of grease also show a very noticeable percentage of increase. The company purchased its supplies of lubricating oils from the Motor Oils and Greases Company in Calgary during 1938, the laid down cost being

Lion Brand -- 50¢ per gallon f.o.b. Calgary

Tiger Brand -- 40¢ per gallon f.o.b. Calgary.

In 1939, however, the company reached an agreement with the Deep Rock Oil Corporation of Minneapolis to purchase future requirements from that company on the following basis:-

Lion Brand -- 48¢ per gallon f.o.b. Calgary including drum

Tiger Brand -- 46.7¢ per gal. f.o.b. Calgary including drum.

We are now, however, purchasing tank car shipments of Bright Stock and Neutral and blending to our requirements. This will result in a 6¢ saving.

Q MR. FRAWLEY: To yourselves?

A To ourselves and we will decide what will be done with it. The company's grease supplies have in the past and are now

purchased from the Battenfeld Grease and Oil Corporation, Kansas City, the cost f.o.b. Calgary being as follows:--

Gun Grease	-- 4.873¢ per lb.
Special Gun Grease	-- 5.507¢ per lb.
Cup Grease	-- 5.824¢ per lb.
Axle Grease	-- 3.920¢ per lb.
Transmission Lubricant	-- 4.721¢ per lb.

The year 1938 was also the first year in which the company entered into the tire business to any great extent. After first obtaining a consignment tire stock for our own station, an acceptable deal was offered by the Dunlop Rubber and Tire Company whereby consignment stocks were placed in the better combination dealer stations. The Calgary bulk station situated in near down-town Calgary at 9th Avenue and 4th Street East obtained the enviable record of selling more Dunlop tires direct to the consumer than any other single outlet in the province of Alberta.

With respect to delivery equipment the policy of Lion Oils Limited has been to give the farmer and retail customer high-quality petroleum products at the lowest possible cost without regard to prices or practices set by other marketing organizations. It was early apparent in the oil industry in Alberta that elaborate marketing setups effected by most companies of tank car shipments entailed considerable expenditure for capital and upkeep of tank cars, large bulk plants, and stocks, etc., thereby increasing the cost of the products

to the consumer. Lion Oils Limited and its predecessors have been one of the pioneers in the movement to institute truck transportation, beginning in 1921, as a major factor in oil distribution. Trucking of petroleum products enables shipments to be made direct to the consumer, thereby eliminating considerable cost for re-handling. The company not only sponsors its own fleet of trucks but encourages all its country agents to truck their own supplies direct from our refinery and distributing centres, and this method has resulted in low distribution costs and consequently lower prices to the consumer.

This system whereby the company transports its products to the distributing centre, and its agents or consuming public come to the distributing centre to obtain their supplies is the most efficient and low-cost method of distibution yet devised. That, of course, is our opinion.

The company has been pioneers in this movement and during 1938 placed in operation the latest type truck and trailer units capable of carrying 2925 gallons of gasoline per unit. These trucks constitute the largest units regularly in operation in Alberta and Lion Oils Limited have pioneered the introduction of these large economical units in this province.

Q MAJOR LIPSETT: Are those the trucks which you refer to on the first page, the number of truck distribution agencies?

A Yes.

Q The number of company owned trucks and trailer units?

A Yes.

Q You just seem to be starting on them, you have three of them?

A That is true. Those are the ones I was just referring to.

Q Yes?

A Lion Oils Limited in 1938 showed an increase in business over 1936 of 150% and as the company was founded only in 1933, it will be seen that this amazing progress has been made in the face of all the difficulties inherent in the depression years. Such progress can only meam even greater strides when business conditions become more stable. Each year has shown a definite step forward in the company's operations.

Lion Oils Limited and its associated companies have been pioneers in new methods of refining, marketing, and transporting petroleum products at less cost and feel that theywere one of the main factors for bringing about reduced prices for petroleum products in the province of Alberta, apart from the discovery of crude oil in Turner Valley, and all the savings effected from time to time by our companies have been passed on to the consumer in the form of reduced prices without regard to other companies' prices or operations. It always has been the policy of Lion Oils Limited to sell to the consumer at a price based on their actual cost plus a fair return on their investment regardless of other factors, and it will pursue this course in its own best interests and the best interests of the public in the future.

Q MR. FRAWLEY: Now, Mr. Stanger, are you saying all you intend to say on lubricating oils, on Page 7, that shows what, I would like to ask you something about

that, you were dealing with an American company?

A Yes.

Q They were American importations, were they?

A Yes.

Q And you paid 50 cents a gallon for Lion brand?

A That is right.

Q Including or excluding the drum?

A That is excluding the drum.

Q Now you have made an arrangement with this company, the Deep Rock Oil Corporation in Minneapolis?

A Yes.

Q They are sending it up to you at 40 cents a drum?

A Yes.

Q Including the drum and 48.1 ----

A That is true.

MR. PLOTKINS: There is something left out there, you had better explain now, we have progressed a step further and we are shipping in tank cars?

A Yes, we have it.

MR. FRAWLEY: It is there.

MR. PLOTKINS: But you have not given costs in here. We intend to deal with that a little more elaborately. This is only an interim report.

THE CHAIRMAN: It resulted in a 6¢ saving, he said.

MR. FRAWLEY: That 48 becomes 42.

MR. PLOTKINS: No, it is not clear in there, Mr. Chairman. I want Mr. Stanger to explain the 48 cents including the drum, the 48 includes the drum but the 42

does not obviously include a drum and the cost is now conceivably less and here are the costs and you might read them into the record.

MR. FRAWLEY: You might file something.

WITNESS: This is the cost of drums.

Q MR. PLOTKINS: What does it cost in tank cars?

A That is all there. I guess we have not all the figures.

MR. PLOTKINS: I will give it to you right now because all you have to do is to deduct the drums.

WITNESS: No, we have not the figures here.

MR. FRAWLEY: Could not Mr. Stanger return?

MR. PLOTKINS: I think we can give it here.

MR. FRAWLEY: I do not mean to read anything into the record, couldn't you have a memorandum dealing rather completely with the whole question of lubricating oils prepared and what it costs you?

MR. PLOTKINS: Why the margin and so on?

WITNESS: Yes.

MR. FRAWLEY: And why you purchase in the United States rather than in Canada. I would like you to deal with that.

THE CHAIRMAN: Could you bring that tomorrow?

WITNESS: I think so.

MR. PLOTKINS: I will call Mr. Gilbert then.

THE CHAIRMAN: Any questions, Mr. Nolan?

MR. NOLAN: No.

ROBERT T. GILBERT, having been recalled, examined by Mr. Plotkins, said:

Q Mr. Gilbert I would like you, you have not come prepared with any written statement?

A No.

Q I would like you to deal with the first thing, country prices, in other words, what is our position and where do we come in with respect to what prices our dealers or agents sell at to the customer?

A I think that will answer the question which Mr. Frawley was getting at a few minutes ago. We do not in any case set country prices. Our price structure is f.o.b. Calgary plus transportation. We do not make any attempt to set the prices in the country. The dealer quotes whatever he wants to.

Q MR. FRAWLEY: It is just f.o.b. Calgary?

A Our entire price is entirely f.o.b. Calgary.

Q So there is no transportation in it at all?

A With the exception of Red Deer and Edmonton where naturally we set the price there, where we have distributing points.

Q MR. PLOTKINS: Is it not the Calgary price plus cartage?

A Yes.

Q So for all practical purposes and it is a fact, that everything we sell is f.o.b. our refinery?

A That is what I have been taught ever since I worked at the Lion Refinery, is Calgary and its net back.

Q Why were you taught that was the basis?

A Because we wanted to know, that is what we wanted to do and it is good practice.

Q We knew the profit by that means and we could not be put out of business so long as we sold at a profit?

A Yes.

R. T. Gilbert

Q But if we sold at a price out in the country that included factors over which we have no control we might find ourselves receiving less money for our products than what they cost us?

A Yes.

Q Now, will you deal then with the country prices, what actuates the dealer to set a price, in other words we will carry on with this man at Olds, this man at Olds comes to Calgary to the refinery and he buys his products; now we will consider him for the present purpose as having purchased them in his own name?

A Yes.

Q And having paid the money and he goes out to sell them to John Jones and Tom Smith, now what would determine the price that he would sell any product at, would it not be based on his cost in Calgary to John Jones and Tom Smith?

A He would take his costs plus a reasonable handling charge; that does not necessarily mean cartage alone. It would be handling. His total cost of handling, storage, delivery and so forth and naturally competition would dictate to a certain extent what he could collect.

Q All right, what would be the result then, I mean he goes to a customer who now is buying Imperial products, Acto, at a certain price and when he endeavors to sell him our product, take Lion White for instance, ----

A At the present time he would be out of luck because our Lion White is too high compared with the major companies' price.

Q So what does he do then?

A Well he takes a certain amount of time, usually they come in

to see us and discuss the problem with us and they say "We have a situation here, we cannot meet this situation" and it forces us into a position of substituting a cheaper product to meet that competition.

Q In other words, we make it possible for the dealer to buy a cheaper product from us that will meet the competitive product?

A That is right.

Q So that then he is enabled to continue in business but can supply a higher price or a higher type of product such as Lion White for the time being?

A Yes.

Q Why is it we are at a disadvantage, have we always been in that position?

A No, we had an advantage up until about practically a year ag now because we based our price, we figured, not having any drums and so forth, that we should sell and be entitled to sell at least 1 cent per gallon below the established price and that established price has been brought down and brough down and freight rates have been brought down and now it is higher than the major companies printed price.

Q Let us analyse that, not quite so quickly, you say we sold at 1 cent below the major companies' price?

A Yes.

Q Now you mean in Calgary until last year there was a country tank wagon and a city tank wagon?

A That is right.

Q And the country tank wagon was 1 cent a gallon on an average below the city tank wagon?

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A Below the city.

Q So that our agent buying on our price in Calgary and adding merely cartage, no railway freight or any other factor but the usual cartage was in a position to reduce his price to the farmer considerably below the local tank wagon?

A I believe as a rule we might say in the Calgary area up until this change took place between country and the city differential that the other agents could sell at 2 cents below the tank wagon at point of delivery.

Q Could sell 2 cents below?

A Yes.

Q In other words he was passing on the saving affected from buying cheaper in Calgary and less cartage charges on the product to the farmer?

A Definitely.

Q Do you recall, when did you first start with Lion Oils?

A January 1936.

Q At that time was the spread only 2 cents or was it greater than that?

A How do you mean?

Q I mean the spread between the Calgary tank wagon, the Lion Oils tank wagon plus cartage to Olds or any other point?

A I would have to go back on to the price list.

Q I suggest to you it started out 6 and 7 cents in 1930?

A Yes.

Q And it is now down to where there is no spread?

A Yes.

Q We did narrow down that point from 7 cents to nothing; for example, the posted price in 1936 of Lion White was 18 cents

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and it is now 13?

A There is a 5 cent drop there.

Q MR. FRAWLEY: What was it in June 1936?

A In June 1936 our price on Lion White was 18 cents.

Q And Turner Valley gasoline was 18½ cents.

MR. PLOTKINS: Yes but Turner Valley gasoline is not a comparable product; that is what we call a washed naphtha; the Imperial at that time did not have a third grade.

A Our Lion White actually compares with their premium which sells at the same price as standard leaded gasoline.

MR. FRAWLEY: Of course, I cannot follow you.

Q MR. PLOTKINS: But to come back to prices, the fact is we have always sold so long as you have been with the company, the company always sold f.o.b. Calgary plus cartage ?

A Yes.

Q So the dealer and the cartage man could not get any more because in our literature we warned the farmer not to pay any more?

A Absolutely. Our price has very definitely established the price throughout the country.

(Go to Page 12,541)

R. T. Gilbert.

Q MR. PLOTKINS: I show you a printed price list. Just read what the conditions and terms of sale are.

A In our advertising we have this on it:

"How to Purchase Lionoil Products.

" Check the within list of products and prices.

"You will find the product to fill your own needs at "a price that will actually save you dollars and cents.

" Then, get in touch with the Lionoil Dealer near "you - he will supply any of your requirements at list "price, plus a reasonable cartage charge. If you do "not know of any dealer near you write to us direct and "give us the name of any trucker hauling in your "vicinity and we will endeavor to secure service for you

" If it suits your personal convenience, come in "yourself and we will be glad to extend every courtesy "to you."

In our prices we give the drum prices in Calgary so that they know they should pay that price plus a reasonable cartage and I think we can trust the average farmer not to pay more than the average cartage rate, because he is very familiar with it.

THE CHAIRMAN: Mark that as an Exhibit.

(LIONOIL OIL PRICE LIST IS NOW MARKED EXHIBIT "546".)

Q MR. PLOTKINS: Mr. Gilbert, give a general description of what this price list covers?

A These price lists we mail out twice a year as far as possible to every tractor user in the territory that we are operating in. We secure a list by going to the Government and listing every tractor user. I think we

mail at the present time approximately 22,000 of these twice a year. It gives the location of the nearest bulk station. For instance, a man living in the Red Deer area say, we feel would deal with our Red Deer distribution point. We give him a price list of our products at Red Deer so that he can figure what it is going to cost him if he sends in and gets his products at that point. For instance, we list Lion Green. At that time our standard gas was green and we give him the distribution price, the price per gallon plus tax and we give him a pretty fair description of the product and the price.

Q MR. FRAWLEY: What is that?

A That is the 1938 Spring prices.

Q Here is one a little more up to date. 1938 Fall prices.

MR. PLOTKINS: We are just describing our method of doing business. We have been doing the same thing the same way for years.

Q MR. FRAWLEY: You said something about giving a list of where your stations are?

A We put this on the top. For instance, this is Edmonton. We list our station at 10609-104th Avenue. Retail and Drum service.

Q MR. PLOTKINS: How do we divide the territory?

A In mailing out these notices or these prices we determine what is the Edmonton territory and what is the Red Deer territory and what is the Calgary territory.

Q How do we determine that?

A That is determined by cartage rates. As you go north of Calgary the rate goes up. For instance, up until the present time the Red Deer price has been 2.4 cents per gallon over Calgary. Anyone from Innisfail, where the price

is less than Red Deer, naturally would not go to Red Deer. They would come to Calgary. The district between Red Deer and Edmonton where the price gradually increases, they would come into Red Deer.

Q In other words, the economics of price or cartage would lead the farmer to come where he can deliver to himself or through a cartage agent products at the lowest cost on his farm?

A That is right. We give a summary of our lubricating oils and greases and tires and so forth. This is a price list advertising the different products.

Q You describe them fully?

A We describe them as fully as possible, We also put our lubricating oil guarantee in whereby any farmer may purchase a quarter of a drum or half a drum or a full drum of lubricating oil and may use up 5 gallons, and if it is not entirely satisfactory he may return what is left and we will refund his total purchase price plus transportation both ways; that is the guarantee we have put on lubricating oils.

Q And everything now?

A We also stand by all our other products.

Q What happens when the farmer has that in his own hands. We will take the case of the farmer in Olds. He has one of these price lists in his possession and if he so chooses he can come into the refinery and he knows what he can buy those products for. But what happens to that farmer. How does he decide whether he is going with us or deal with someone else?

A His general procedure would be to contact his trucker in

that district and find out what it would cost him to take it by truck. Or he may know in his own mind what it would cost and compare it with the other products, with what he would pay at the local bulk station or to any other independent company at Calgary.

Q We will presume, or we know at the present time our representative in Olds cannot successfully meet the Imperial Oil price on Acto by having to supply him with Lion White. What does the dealer or representative do in order to offset, if he can, that disadvantage??

A He becomes a sales agent at that time and gives the farmer a pretty fair talk on our products and the experience he has had with them and goes out and sells it for us.

Q He is compelled, if he is going to retain his cartage business, to turn himself into a salesman?

A Absolutely.

Q Because you cannot do as the Imperial or the Maple Leaf or any other company will, in selling him goods at the price he can continue to supply that farmer?

A That is right.

Q So he has to turn from a cartage agent, in order to protect his cartage business, to turn into a salesman?

A That is right. Naturally, in dealing with this truck distribution agent, we give them all the necessary information. We write them regularly so that they know the prices, and keep them posted on all the different factors that enter into their business.

Q What has been our experience in connection with these cartage men after we have built them up or enabled ourselves to build up a business in any one district. What has

happened to these cartage agents in the matter of competition from other companies?

A They immediately become the target of other companies. As soon as they build up a gallonage of say ten or twelve or fifteen thousand gallons, that becomes attractive business and they receive attractive offers from other companies.

Q How does the Imperial Oil attempt to absorb these agents into their system and taking them away from us, without on the surface showing up at all in any way?

A Well, I do not know as the Imperial Oil until recently has actually - the Imperial Oil itself - has actually come in and talked to our truck dealers except through subsidiaries.

Q Through subsidiaries and also directly. Take in the case of an agent, the Imperial Oil agent that has a transfer allowance, What happens to that transfer allowance in connection with approaching one of our dealers?

A Well, they can figure out a system of extra discounts and they would offer more to this agent than we have. That would not apply so much to truck distribution agents. They take care of that through their subsidiary companies.

Q What about the consignment accounts?

A The consignment account is an established dealer and they go and check his business and if it is attractive they pay monthly discount and they give him pretty fancy prices. In fact I know of a case now and I think you are familiar with it, Mr. Mercer at Legal. He is a farmer living on a farm and looking after considerable area in the oil business. The Imperial have contacted him, wanting to make him their agent on the farm, which is departing entirely

from what is supposed to be their method of doing business.

Q How can they do that and still retain the agent in the town of Legal?

A I do not know. It is a competitive move because we get considerable business in the year.

Q Coming back to these shipping agents. You say they are vulnerable to other companies such as the Maple Leaf and so forth. How do they approach that subject?

A I would take the best example, the B. A. and the Bell. The B. A. is a major company operating on a strictly major company basis and they cannot, without upsetting their whole business go after one of our agents. They go to the Bell, which they operate under the guise of an independent company, They are not concerned with profit or loss or anything else. Their whole business is getting gallonage and operating on an entirely different basis, that approximates our basis, and they are in a position to give some pretty fancy competition.

Q How can they go out - give us some specific instance of the method?

A They send salesmen out and----I can take the example of the Great West Distributors. They keep a man in the City of Calgary most of the time to follow every trucker down the street to find out where he is going.

Q But how would the Bell do it. Give us an instance?

A They do about the same as any other company would do, they would actively go out and canvas the country for business.

Q In other words, do they adopt the basis of meeting whatever condition they find in the field that are created by small independent companies such as ourselves?

A Yes.

Q And they then contact our dealers----

A They operate on the same basis that we operate and go a little bit further. They are not concerned with cost. They go out and solicit business one way and another. They have men in the country all the time.

Q They do not strictly stay within any particular system and prices?

A No, one day they are operating on a major company basis and the next day on an independent company basis. They have no set rule.

Q MR. FRAWLEY: Mr. Gilbert, is generalizing, and I want to know about the Bell so that we can put it up to the company. Tell us what the Bell does, It is a little unsatisfactory to say they go out in the country and act as an independent one day and as a major company the next day. What do they do?

A The Bell at the present time is not interfering with us because they found we were in a position and knew our own business well enough that we could fight back and are now willing to call it quits. But that is neither here nor there as far as prices are concerned.

Q It is not here anyway.

A It was here eighteen months ago.

Q MR. PLOTKINS: Have we any dealers that were taken from us. They have been attempting to take away all that business.

MR. FRAWLEY: And how?

MR. PLOTKINS: How, that is what I would like to know from you?

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A I have to go back, and I do not know as I can think of an exact instance, because they were making a bid for all our dealers. Offering them this and that and offering equipment.

Q THE CHAIRMAN: Did you lose one?

A Yes.

Q How was he induced to leave you?

A In that particular case by drums and credit.

Q Free drums and credit?

A Yes.

Q MR. PLOTKINS: Who was he, let us get an instance?

A Becker.

Q He did deal with us, and what were the conditions with us and what conditions did somebody else give him?

MR. FRAWLEY: And give us the approximate date, if he can?

Q MR. PLOTKINS: What date, Mr. Frawley wants?

A It is pretty hard to come in here and out of a clear sky just to give this. But this particular case was in 1937. He started in the Spring with us and he was doing a nice business. He sold around 7,000 gallons the first three months.

Q Who?

A Ted Becker of Carbon.

Q Was he already in the oil business when we contacted him?

A No, he started in the oil business with us.

Q Now, here is a typical case. What did we do?

A I cannot tell because he went to work before I went to work with the Lion Oils. He started out as a young fellow with a truck and got into the oil business in his territory and built up a nice business.

Q At the time you contacted him he had been dealing with the

Lion Oils exclusively?

A At least one year.

Q And he had a respectable gallonage?

A Yes.

Q What did the other companies offer him in order to leave us?

A They offered him a better price and credit and supply of drums. I believe that was all.

Q THE CHAIRMAN: Who offered that?

A The Bell.

MR. PLOTKINS: I intend to bring some dealers here and have the Commission examine them so that we may get something definite of the method and how it is done. Not necessarily our dealers.

A I think the main point we are trying to make there is that these men could not in any shape or form have been British American agents under their method of doing business. They could not go out and get him, they could not appoint him as an agent but the fact they were operating the Bell as a subsidiary permitted the Bell go go out and kill that man as far as we were concerned. That is a fact. If the Bell was operating purely on an economic basis as a competitor, the fact they went out and did this and that would not mean anything. It is up to us to protect ourselves. But where a major company subsidizes a jobber company to go out and attack your business you are on a different basis than on a profit and loss or a competitive basis. If they had gone and built a bulk station and said "Here, you are here as the agent of the B. A.," there would have been nothing wrong with that. Or if the Bell was operating on a purely competitive basis and

were fighting us for business there would be nothing wrong with that. But the fact is that this company being subsidized went out and made offers to this man in prices that they could not possibly justify.

Q What was Mr. Becker's position at the time you started to deal with him?

MR. FRAWLEY: What was his operation?

Q MR. PLOTKINS: Yes, what was his operation?

A His main business was dealing in gasoline and oils in this district. He did trucking besides but his main business was gasoline and oils.

Q MR. FRAWLEY: What was the nature of his business?

Q MR. PLOTKINS: Did he have a warehouse or tanks?

A No.

Q He had no warehouse and he had no tanks?

A No. He was acting as a cartage agent interested in sales.

Q Last year didn't he erect----

A At the start of last year he erected a warehouse, yes, and carried a full stock.

Q He carried a full stock?

A Yes.

Q When the other company contacted him - you say it was the Bell - what would be the position then. You have already explained that they can jump in and give prices and conditions that the parent company themselves could not under their own system?

A That is right.

Q I suppose we can't go any further into the connection with country prices. Is it general, in our system, that the

cartage agent or dealer just meets competitive conditions to the best of his judgment and ability in connection with resale prices?

A I did not quite get that question.

Q Our dealer buys f. o. b. Calgary?

A Yes.

Q Whether it is through Red Deer or Edmonton it is actually f. o. b. Calgary?

A Yes.

Q He does what he pleases insofar as ways and means of selling his products and meeting competition?

A Yes.

Q As a result of that there is no fixed price either by him or by us?

A No. In fact, you might point out if the farmer came in who lived at Drumheller and would say "What would it cost us for so and so product?" all we could tell him is "Calgary is so much plus what the cartage company would charge." We do not attempt to sell him. We do not establish that price at Drumheller on our distribution system.

Q With the result that our system is flexible?

A Yes.

Q And the dealer can protect himself against any type of competition?

A Yes.

Q As long as it is not below cost?

MR. FRAWLEY: And he does not know that.

MR. PLOTKINS: His cost, his cost f. o. b. Calgary, and he has the cartage cost above that, and if he

sells below that he cannot stay in business?

A Not very long.

Q His problem is how to make a profit under those conditions?

A That is right.

Q And he sets his prices according to the best of his judgment and ability?

A Yes.

Q And in your experience, you are out in the field, does he have a fixed price in that district, or what actually does happen. Take a typical instance, name one man and give us whatever information you have?

A Yes, he would have fixed prices unless he got out under conditions where he had to make an extremely long delivery or something like that, because he is working purely a cartage business and his delivery is on a cartage basis so much further he would have to charge for.

Q Is the basis not Calgary plus a regular cartage charge to the point of delivery?

A Yes.

Q In general, that would be the basis?

A Yes.

Q But in other cases where he cannot sell at that price he might reduce the cartage charge or take some of his sales representative margin or dealer discount?

A Yes.

Q Another thing. This cartage charge. Is it in all cases sufficient to take care of the competitive charge made by the trucker?

A No.

Q Explain that?

A For instance, a 60 mile haul, I believe that the average

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truck rates range all the way from 20 to 30 cents a hundred. If that is broken down it would not pay the differential, that is, the differential would be less in a lot of places. If he has a delivery from here to Olds, in my opinion he should collect about 2½ cents a gallon. He has to have the drums and go and take care of the farmers' deliveries and so forth and he should, bringing in the drums, he should collect from 2 to 2½ cents a gallon. It is a question of whether he wants to carry on business and take the spread out of his commission or reduce his carrying cost.

Q MR. FRAWLEY: You say the spread is 1.7?

A That is up until now.

Q What do you mean when you say the spread is 1.7?

A That is the difference between the Calgary tank waggon and the Olds tank waggon.

Q The Imperial Oil price structure?

A Well, the major companies.

Q MR. PLOTKINS: I want to amplify that a little more. As the distance increases the major company differential figures out at a less cost per mile per gallon?

A Yes.

Q Why is it that the cartage agent, cannot successfully compete with the railroad; for instance, say the railroad and an agent of a major company on a strictly differential basis?

A Well, our cartage agent handling gasoline in drums, and for one thing he cannot take enough load to make it pay for that distance.

Q Another thing, is it not that the gasoline is carried by

the railroads at fifth class rate?

A That is right.

Q And the average cartage a ent has to consider his average return on all classes of freight?

A That is right.

Q So that in cases where too big a proportion of his cartage consists of gasoline or oil products at fifth class rate he cannot exist?

A That is right.

Q So what does he do, he uses----

A He uses his total spread.

Q And we have to provide a spread sufficient for him to carry on his operations profitably if we are going to keep him as a dealer or a cartage agent?

A Yes.

Q So that the question of prices and spread is involved to the extent of freight rates and delivery cost?

A Yes, that is right .

Q And competitive rates?

A Yes.

Q And it is not simple so that we can study it----

A No, it is not simple.

Q Just as it is, and make a simple answer?

A For instance, there is an example of the price adjustment last year, the differential adjustment. The spread between Edmonton and we will take Westlock, for instance, the spread was decreased, and the spread between Calgary and Edmonton was increased. In other words, you can see that using Edmonton as a distribution point the spread that cartage agent could collect between Edmonton and Westlock was reduced. For instance, the spread is

8/10 of a cent and the spread between Calgary and Edmonton was increased half a cent. In other words, it was a move apparently to put a damper on truck deliveries out of Edmonton to that territory. In that case we were forced to take part of our spread between Calgary and Edmonton and give it to that man there to make it even close to the cost.

Q Why. Is it not because the farmer just disregarded the cartage rates and said the Imperial difference between Edmonton and my point is only 8/10 of a cent and I am not going to pay you any more?

A That is right.

Q So that the cartage man for the first time was up against competition that had nothing to do with cost?

A Cost did not enter into it at all.

Q What position did we find ourselves in?

A We had to help our agent if we wanted to keep him.

Q How did we do that?

A We gave him a cartage allowance of half a cent per gallon.

Q In other words, we increased his commission a half a cent?

A No matter what we call it that is what it actually meant, that we increased his commission.

Q Was that the reason for giving it to him?

A Yes.

Q We actually increased his commission?

A Yes.

Q So that the economics of cartage and costs are interrelated with the final costs, as far as the farmer is concerned?

A That is right.

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Q MR. FRAWLEY: You are talking about Calgary, Edmonton and Westlock?

A That is right.

Q 16½ cents, 19½ cents and 20.3?

MR. PLOTKINS: Not necessarily. Our spread is not necessarily and in fact it is not exactly the Imperial spread between them three points.

Q MR. FRAWLEY: Mr. Gilbert is talking of the Imperial differential between Edmonton, Calgary and Westlock? aren't you?

A Yes.

Q Calgary is 16½, on the 22nd of June, and has been for some time. Now it is changed, of course. Edmonton, 19½?

A Yes.

Q And Westlock, 20.3. That is your spread of 8/10 of a cent between Edmonton and Westlock?

A Yes.

Q I suppose you know it is all a freight proposition from Calgary. The freight from Calgary to Edmonton is 3 cents and the freight from Calgary to Westlock is 3 cents plus, what is it, 1/10 of a cent, I suppose?

A That is on that basis, yes.

Q And that is the way they build up their price structure?

Q MR. PLOTKINS: Explain what it was before that?

A Before that it was based on Coutts into the central distribution point, such as Calgary and Edmonton. Immediately it went out of Edmonton there was a difference of 1 cent. That is where the difference between the City and the rural spread came in. On top of that there was a decrease in price, which lowered the price at Westlock 1.3.

Q MR. PLOTKINS: Before that date there was only a

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2½ cent spread between Edmonton and Calgary?

A Yes.

Q That is because the freight rate in Edmonton was based on Coutts?

A Yes.

Q But when we come to June 22nd the spread was increased by the Imperial price list to 3 cents?

A Yes.

Q That is because the freight rate was then based on Calgary?

A Yes.

Q And the cost was 3.12. That is the reason and that explains the position we found ourselves in in respect to our dealers?

A The position was they were selling truck delivered products on railway rates.

Q Truck delivered products on railway rates?

A That is the true picture.

Q In other words, the Imperial, as we pointed out to them a good many times, were not recognizing the new factor, the decreased cost of transportation?

A That is right.

Q As represented by their own delivery system in the products?

A That is right.

Q MR. FRAWLEY: Would it help if we put into the record at this place what those prices at Calgary, Edmonton and Westlock were before the change on the 22nd of June?

MR. PLOTKINS: If you see fit.

MR. FRAWLEY: At Calgary the price was 17 cents, is that correct?

A That is right.

Q At Edmonton, 19.5?

A That is right.

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Q And at Westlock, 21.8?

A That is right.

Q So that that is the distinction you want to call the Commissioners' attention to?

A That is right.

Q And before the 22nd of June, 1938, it was Coutts plus the freight to Calgary or plus the freight to whichever point it went?

A I think what we want to point out there is, as an illustration, there is a different spread between Westlock and Edmonton. There was a price change recently of 2.3.

Q 2.3?

A It was reduced to a decimal point.

Q It was reduced to 8/10, because they went on a strictly Calgary plus basis?

Q MR. PLOTKINS: They did not even do just that, did they?

A In that way they distributed out of Edmonton.

Q They distributed out of Edmonton by truck?

MR. FRAWLEY: The gasoline did not actually move by tank car to Westlock?

A They set their price on the rail rate and delivered by truck.

MR. PLOTKINS: We are not talking of the Imperial only, when you say they redistributed these out of Edmonton, but all the major companies did it?

A Yes.

Q They either delivered by truck themselves or they bonussed, or they paid cartage allowance to their agents?

A No, not at Westlock. At Westlock the agent had a truck of

his own and he came into Edmonton and he got his products.

Q And did they give him 8/10 of a cent, or what did they pay him?

A That was what he was getting, 2.3.

Q Up until June 21st the Imperial Oil agent, owing his own truck, came into the Edmonton warehouse of the Imperial and the Imperial gave him the price at his point, Westlock?

A Yes, that is right.

Q And said "Here is 2.3 cartage allowance"?

A That is right.

Q Now, after June 22nd, did the Imperial continue that system of allowing the agent to come into Edmonton?

A Yes.

Q Well, did they just reduce their cartage allowance to 8/10 of a cent?

A As far as Westlock, I cannot speak from experience. I do not know just what they were allowing the agent there. But I do know what they were doing in Kingman and the Round Hill country.

Q Well, give us a typical point?

A Kingman and Round Hill is somewhere between 40 and 50 miles out of Edmonton and the major company tank waggon, based on freight, is 1/10 of a cent higher than Edmonton. In other words, it is based on tank car shipment from Calgary but to the agent operating at that point, in order to get his product from Calgary he has to get it from Edmonton.

Q You mean that he was not receiving any tank car shipments but he was obtaining them, using his own truck and going into Edmonton and getting deliveries?

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A Yes. According to the rail differential or the price differential he should receive 1/10 of a cent per gallon. In other words, that is what he can sell these products for over Edmonton. But they bonussed him to the extent of 1½ cents cartage allowance.

Q They do honus him. They had to pay him a sufficient rate to take care of his costs?

A Our contention is if they are going to operate on a truck basis they should operate on a truck basis. But they are selling on a rail basis and he is operating on a truck basis.

Q And they are, in order to compete, they are paying him an extra trucking allowance of what?

A 1½ cents.

Q The railroad rate to Kingman is not greater than the Edmonton cost, 1/10 of a cent?

A That is the railway difference, 1/10 of a cent. So the effect of that practice, so far as the Imperial was concerned, was to absorb the cent and a half extra cost, and practically eliminated us from that territory.

Q Now, was not that practice followed by the other companies?

A Yes.

Q And the margin permitted them to carry on that practice?

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Q Let us get down to that, so what you say is with a condition like that----

MR. FRAWLEY: Where is the subsidiary.

MR. PLOTKINS: Associate or affiliate.

MR. FRAWLEY: Of what?

WITNESS: Of the Imperial Oil.

Q Of the Imperial Oil or any other company?

THE CHAIRMAN: All right, the subsidiary is the Highway.

Q MR. PLOTKINS: The Highway we contend is one of the Imperial subsidiaries or of the Standard Oil of New Jersey, they claim they are independent but we do know the Maple Leaf is the subsidiary; we know that the Bell is a subsidiary of the British American and we know that the other major companies, because of the fact that the Imperial and the British American and other companies treat them as jobbers and allow them a good big spread, they are enabled to do that, so what I want to bring out now is-----

THE CHAIRMAN: What I do not understand, you take the Maple Leaf, I do not understand this, how does it advantage them to operate the Maple Leaf uneconomically, giving an allowance and doing all these things necessary to get business away from the Lions Oils say, when it is a wholly owned subsidiary and they must absorb that loss themselves in the end.

MR. PLOTKINS: True, but Mr. Chairman, it is very simple; in the oil business, it has been propounded by Mr. Rockefeller in 1883 and the same procedure

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is carried on today and it is sound, I do not dispute the conclusion, it is sound from a strictly economical viewpoint, if you take and apply science to everything the major oil companies do, it will stand the test but when you apply conscience with science-----

THE CHAIRMAN: All I want to know if what is the reality.

MR. PLOTKINS: That is what I am coming to.

THE CHAIRMAN: The theory is well-known but what is the fact.

MR. PLOTKINS: I am coming to that. If the Standard Oil Company or its subsidiary, if the parent company can operate and control say 95%, 90%, 85% or 75%, it should predominate price, whatever they set for themselves, they will go back to the proper base of their figuration and they can operate with 90%, with the subsidiaries keeping us in line so as to restrict the number of competitors to a minimum; in other words if we cannot make any money we are not going to grow, that is a cinch, because we have not the same facilities for getting capital,- we have no facilities,-so we must create capital, so if we are held down to the organization of subsidiary companies that, attempting to follow their customary way, make and meet our conditions or better it, the result is that only a small proportion of the business is done by us and these subsidiary companies at cut prices or what they consider cut prices and it protects the major volume of the business and gives them the profit they look for; in other words they say the lesser evil is what we are going to choose. If we have to meet com-

petition let us meet it on its own ground and restrict that competition to as small a figure as possible. Now that is the theory behind these subsidiary companies.

MR. FRAWLEY: Why does the Imperial do all these things?

MR. PLOTKINS: Mr. Gilbert has pointed out they cannot go out and have two agents in the same town and each sell on a different basis but the Maple Leaf can sell on our basis and the Imperial can keep its skirts clean by selling on its list, keeping to its list price.

WITNESS: I think the excellent condition of the Maple Leaf set-up there,-we grant that the Imperial has the major portion of the gallonage,- but one company has more gallonage than another company, the Maple Leaf set-up with the U. F. A., they started out by erecting a bulk station and they gave them, they gave the agent the regular agents' discount.

Q MR. FRAWLEY: Well they gave them a contract, a spread of 3½ cents?

A Well it actually boils down to this, then they gave the farmer a dividend, as the Maple Leaf, they could do that but supposing they were trying to do that with the Imperial organization, every farmer would say "I want the same thing" and the general price will go down.

Q MR. FRAWLEY: Let us be sensible about it, does the Maple Leaf hand out any patronage dividends to the Farmers, the Maple Leaf Oil Company?

A Certainly not.

Q But they make it possible, do they not, Mr. Gilbert?

A They certainly do.

Q If the U. F. A. had the same contract with the Imperial Oil, Limited direct----

A If you will go to the opposite, I belong to the U. F. A. and when I go to them and say "Well what will I get", they will say "You make a 6 cents dividend", the Maple Leaf agent will make that statement?

Q He may make it but he is stating something which follows from that man's relationship with the U. F. A.?

A Certainly.

Q He is only speaking out of turn if you like to use that expression or in turn, for the U. F. A.?

A But here is the simple question, if this contract was between the U. F. A. and the Imperial Oil direct, the other farmer would say "If he gets it I will get it" and down would come the price.

THE CHAIRMAN: As I understand it, Mr. Frawley, as he is saying the real point is that the Imperial and the British American have a certain price in a town which they want to maintain.

MR. FRAWLEY: Yes.

THE CHAIRMAN: They find someone like the Lion Oils that is undermining their price in that town.

MR. FRAWLEY: Yes.

THE CHAIRMAN: They do not change their prices with regard to the B. A. and the Imperial, that is the price which they wish maintained but they send Maple Leaf in to cut below Lion Oils.

MR. FRAWLEY: I understand that, Mr. Chairman, very clearly but I would like to follow that up.

THE CHAIRMAN: The Imperial is maintaining its price and the British American is doing the same.

MR. FRAWLEY: But I was pursuing something different, the U. F. A. - Maple Leaf situation.

THE CHAIRMAN: Oh yes, but there we have the contract.

WITNESS: I am not trying to comment on the contract or the deal but I am saying they are contracting on a different basis with one company than with another.

Q MR. FRAWLEY: The Maple Leaf will come into a town and they will make special prices because you are there?

A That is right.

Q Now I would like, very glad to have fully and concisely support for that story because otherwise with great respect it does not help me very much for you to make these statements?

A Out of my head this morning I can only----

Q You gave us one because at Carbon your dealer was taken away from you by the Bell?

A I want to go a little further than that. For instance when the competitive discount came in last year the Imperial said "That does not effect you because the agent must sell that to the farmer at that price before he can get the discount". In other words we will take the price in Calgary as the retail, the price of 14 cents and the competitive discount was a cent and a half, we said "You are cutting the price a cent and a half to the dealer",

"Oh no, we are not going to effect your dealer to any extent". That was the story of the Imperial you see and we asked them why,"it is only a method to get back the direct farmer business", this is their story, the way it was put to us, and that dealer must pass that discount on to the farmer before he can get it; in other words he must show an invoice where he sold at that price before he will be allowed that discount himself.

Q. I suppose that would be so?

A. There was no way that could effect your dealer because the dealer must sell on his local tank waggon. That was their story but the Bell is a subsidiary of the British American and it didn't work that way, they didn't establish a price at Beiseker to take that as an illustration but they said "You come into us and we will give you a cent and a half off your net price", so they created a condition whereby the agent was buying at 10½ cents and that effected our price immediately and at that time our price was 11½ and we lost a lot of business. On top of that the Imperial was limited to their own area to be served from their bulk stations but the Imperial did not, I mean the Bell agent at Wetaskiwin he was out of the competitive area and he came into Calgary and could buy on the competitive price.

Q. MR. PLOTKINS: It is a little complicated to explain now but I am preparing a brief on that, so that it can be digested by Dr. Frey and the Commission Counsel but I will come back now to truck distribution. What is your experience in connection with serving remote districts

through this system, which is not now served by any company through the established orthodox method of handling petroleum products?

A I think we are dealing with quite a number of truck distribution agents that are serving many territories much cheaper than they could be served before.

Q You mean the B. A. agent or the Imperial agent would not go out 25 miles into the wilds?

A Take the district Northwest of Rimbey for instance, no agent would go in there unless he had a load, it would not pay to go in with two drums or four drums but in our case our agent may live right in the heart of that community and it is no extra effort and he is serving it better than the bulk station in Rimbey.

Q And making his living on cartage through timber or anything that he can get, to haul for a profit?

A We serve a large number of points that way.

Q And does his costs compare favourably with the costs in every other district that is served with good roads?

A Yes, I believe it does.

Q Or is served with the railway?

A Yes.

Q So there is a benefit to the consumer in the remote districts, that he can buy his products at a lesser price?

A Yes, through that method of distribution.

Q THE CHAIRMAN: Now you and Mr. MacKenzie both seem to be claiming the honour of pioneers in this method of distribution, which has done much for the farmers in this country, what is the difference in your two systems?

MR. PLOTKINS: Well Mr. Chairman, I started out in 1921-----

WITNESS: I think I can verify that statement better than anybody else in the room, because I remember when we used to purchase from you in tank waggon deliveries and that was the first I saw in the Province.

MR. PLOTKINS: It is immaterial to me whether it was ourselves or Mr. MacKenzie.

THE CHAIRMAN: Quite so but what is the difference in your methods.

MR. PLOTKINS: Yes, there is a point of difference.

THE CHAIRMAN: And what is that.

Q MR. PLOTKINS: Probably Mr. Gilbert can give us that?

A As I see it the difference is that we work from distribution points plus cartage and he works from established outlets.

Q On the local tank waggon?

A On the local tank waggon or the basis of local tank waggon.

Q In other words he is not disturbing the method of the Major Companies?

A No, his method is from one point to another point and ours is from one point.

Q Now coming back to this differential, is that only one way of effecting prices, just to quote a lower price to a dealer or are there other ways of giving a dealer a chance to sell at reduced prices; you have again that instance at Kingman,

can you elaborate that and show the effect of that cartage allowance?

A In that case it does not give you much, let me see, it gives about an extra cent and a half discount.

Q He has his commission of 2 cents?

A He has his commission of 2 cents on the price.

Q And then he has the cartage allowance?

A Yes.

Q So that gives him 4½ cents?

A 3½ cents.

Q Now what position is our dealer in that town in?

A Well in that particular town unless we did something to meet competition he would have 1.6 of a total, commission and cartage.

Q Why?

A Because we are not in the habit of bonusing for cartage.

Q So that the net result would be that he could not go out and meet competition?

A In that case there we went to the extent, we gave him a half cent which we had taken up between Calgary and Edmonton, we passed on but he still would only have a total of 2.1, where the other man has a total of 3.6.

Q And the man with the total of 3.6, what does he do with it usually?

A Usually goes out and he gives the farmer a cent a gallon.

Q So in every case whether it is a major company or whether it is an independent company, when they give an allowance to a dealer or an agent, whether it is called "cartage allowance" or "commission" or "discount" or any other name,

whatever they gave it, it means that it costs the agent or dealer so much F. O. B. the point of delivery to him?

A Yes.

Q And whatever excess over, a reasonable cartage allowance and a reasonable profit as he considers it, and his competition forces him to consider it, he passes on to the farmer?

A That is right, he gives the farmer a discount.

Q So that with the system of the Imperial Oil or any other major company operating on that basis, except with a few, a few minor exceptions, where they give their agents a chance to truck and that is only a little exception, the agent is powerless to effect prices because he only has his 2 cents or his 1 cent?

A Yes.

Q But the independent dealer or the major companies' subsidiary dealer, whether they can make him an allowance or show him a price F. O. B. the refinery or distributing point, is in a position because he buys his goods, is in a position to pass on whatever he sees fit of that to the consumer in order to effect business?

A And that is generally done.

Q Yes, so that the competitive system under which the oil business is operated in Alberta today it can be said truthfully that the major portion of it is on the company's basis, that is they fix their major company operations on a definite agency basis where the agent has no control over price?

A That is right.

Q He cannot cut his cent commission because he cannot live?

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A Well I believe it is pretty generally known that he cuts the 2 cents considerably.

Q Well he cannot cut it very much, can he?

A Well he can treat the large farmer as an undivided account.

Q Does he do that or does the company do that?

A Well that is a question.

MR. FRAWLEY: The company does not because they did not.

Q MR. PLOTKINS: Well we had the case of your father who is a big farmer and has been buying for many years large quantities of petroleum products and you have been acting for him for a number of years, now what is your experience?

A Our experience was that at any time we could go direct to the Imperial Oil office and make a deal?

Q What kind of deal?

A At least 1 cent a gallon discount and lots of credit. I do not remember whether that was handled through the local dealer but we knew we were dealing direct from Calgary.

Q Your deal was made direct with Calgary?

A Yes.

Q So in that case the agent still made his 2 cents?

A I cannot say. I imagine it would handle out like the machine companies where a man comes in and he makes the deal with the head office, they would say "Instead of $150 commission you have only $100" and they really would say "We made this deal with this man and there is only 1 cent commission to you".

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Q And what is your experience?

A Well I imagine the agent only gets 1 cent commission.

Q So the company is able to control that business and give the larger dealer a lower price, I mean it can because of this passing of that 1 cent to the agent?

A That is right.

Q So in that case the agent has no power to effect the prices?

A No, if he didn't, if he wanted to, if he had a large consumer in the district and he thought it worth while he could give him a discount and he sometimes does.

Q But he cannot give more than what he is getting?

A I know in the case of our dealers we have dealt direct with the head office of the Imperial Oil.

Q Now in the case of the independent dealer trucking or getting the supplies from the refinery or some large distributing point, they would have more than the 2 cents to work on, they would have----

A They would have 2 cents over all.

Q What?

A I didn't quite get your question.

Q In our case for instance the agent or the dealer has 2 cents or a cent and a half and then he has his cartage; for instance a dealer comes into Calgary we sell him 13 cents less 1½?

A That is right.

Q That is 11½?

A Yes.

Q And he has the difference between the 11½ and whatever the competitive tank waggon price is?

A To work on.

Q In the particular district?

A Yes.

Q And that is always more than a cent and a half?

A Yes. Well not always, it depends how far he is going to go; you mean the cartage is always a cent and a half?

Q No, the total commission and the cartage?

A Oh yes.

Q Because he has the cent and a half plus the cartage?

A Yes.

Q So he is in a position not only to pass on the lower price that we have sold it to him at but he passes on any savings he can effect in the cost of distribution?

A Yes.

Q In other words he does not keep that unless he sees fit to do so and competi on of the Maple Leaf and other companies and other indep dent companies, forces him to sell at the lowest possible price?

A I think it is the other way around. I think the fact that our agent can operate on a more economical basis and go out and give the farmer a better price and a better deal is the way the Maple Leaf and other companies are attacking us and bringing theirs down.

Q But they can do the same thing?

A Yes, they are forced to do it.

Q So there would not be any Maple Leaf or there would not be any Bell if there was no independent companies to compete with?

A Not in my opinion.

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Q Now the question of lice es, can you tell us, you have done most of the negotiating direct with the Department in respect of these truckers?

A Yes.

Q Can you tell us your version of what the position is, the Lion Oil Company's position is, with respect to the licenses, as to the agents in general?

A I think the original argument, the trouble we had, it used to be and I notice in our brief and everything else we continually speak of "dealer". Now by "dealer" we do not mean the pump account as recognized by the major companies. We call a "dealer" the man who buys and sells petroleum products. He is dealing as a dealer.

MR. FRAWLEY: Is there any distinction?

MR. PLOTKINS: Yes, because they have a dealer only at their pump. They have no other dealer and we have all kinds of dealers.

A It led to many arguments between ourselves and the department. They were looking at it from the major companies' viewpoint. What we call a dealer they would not call it. That is why we changed our contract to read "agency contract". At that time I believe the regulations were that a man to sell gasoline to a farmer must have a retail business. I remember making out an application, it used to say what type of outlet, I forget the exact wording but they used to list it as a truck, and they used to give the license of the truck. That was all that was required at that time and then I believe it was in 1936, was it not, that the new regulations came into effect.

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Q MR. FRAWLEY: The new Licensing Act?

A The new Act, that is right, and there seemed to be some confusion about wholesale. It is very confusing in the whole gasoline business because the man who sells a drum of gasoline to the farmer, that is a question whether that is a retail sale or a wholesale sale. In the ordinary line of business that would be retail, but in the gasoline business it is called a wholesale deal and it developed into a large number of our so-called dealers were then informed that they could not continue the business of dealing and selling in gasoline. In some cases the Mounted Police went around and checked up on them and we started numerous arguments with the department. They said "This man is not an agent, he is not entitled to it". We said "He is our agent", and there is the background there. There is also the regulation that it was against----

Q THE CHAIRMAN: With whom did you deal?

A Mostly Mr. McEwen.

Q Is he still with the department?

A Yes.

Q Go on?

A And there was also, it was against the law to give a wholesale discount to anybody but a licensed wholesaler and that is where we really were up against it, they would not give any of our dealers a license; in other words he was eliminated so far as we were concerned and at that time----

Q Why do you say that, Mr. Gilbert, that it was against the law to give him a discount?

A He was not a licensed wholesaler, it was right in the Act.

Q So that the Act did not only deal with licensing of the dealers, it dealt with prices and discounts?

A That is right, and naturally they have refused a license and we couldn't sell him on a wholesale basis and we lost that. At that time it was practically, well I would say, between 60 and 70% of our business.

(Go to number 12,577)

and we contended that we had the right to select our own agent and deal with him as we pleased the same as the Imperial Oil does. They put their bulk station up and put in their own agent. That was their type of selling and our type of selling was to sell through what we might call a trucker agent. We finally, I think Mr. Plotkins after numerous discussions in Edmonton, had it recognized that we had the right to license this man under our license. In other words, he was our agent, and that is why we changed the name from dealer to agent, particularly in this year's contract. There was also the question of the Fuel Oil Tax. The way it was before it was being paid twice. It was being paid on our gallonage and if this man had to have a license he was reporting his sales and he was paying. That was our contention that we should pay only once.

MR. FRAWLEY: The tax was being paid twice?

MR. PLOTKINS: Yes, the gallonage tax. Under the Fuel Oil Licensing Act, there is a tax per gallon, apart from the road tax and apart from the one hundred and one other taxes, there was a charge for every gallon.

Q MR. FRAWLEY: Mr. Gilbert just said the Fuel Oil Tax Act. There is no tax?

A Are these licenses not set up under the Fuel Oil Licensing Act?

Q Oh, it is a license fee. There is no tax at all?

A It is a tax.

Q MR. PLOTKINS: It is on a gallonage basis. It is called a license fee?

A It is on a gallonage basis, and it was afterwards granted

that we could appoint our agent and submit the regular schedule and include him along with our license and he would be endorsed upon our license. I understand that is the way it is handled. He is our agent. But we report to the Department the number of sales and so forth.

Q Do you mean that we could, was our own contention that we had the right to set our own prices for our own products and do with them what we pleased?

A Apparently they did not see it that way. At the start of this season we thought it was all ironed out and we submitted the schedule and our agents would be endorsed on our licenses, and so forth. But it is being played with, and we have not received our wholesale list. They write back saying that the Fire Commissioner has to go around and approve the outlet.

Q Is it not the big trouble that the Department insists on having us carry on our oil operations on the major companies' basis?

MR. FRAWLEY: Oh, no.

Q MR. PLOTKINS: Is not that just what the trouble is? If we operate on the same basis as the Imperial there would be no question of a license. If we had bulk stations and agents and the same method as the major companies, the Department would not make any trouble at all?

A No.

Q They would grant us the same kind of license. The trouble with the Department is they do not feel at the present time or they won't recognize our method of doing business?

A That is right.

MR. FRAWLEY: Oh.

Q MR. PLOTKINS: That is the one source of our trouble. It is not because we do not pay our taxes?

A No.

Q It is not because they have any other trouble with us, it is because they are unable to reconcile our method of doing business with the orthodox method of doing business?

Q MR. FRAWLEY: Perhaps with the statutes and and the regulations.

MR. PLOTKINS: Under the regulations, that is prefectly the position.

MR. FRAWLEY: Mr. McEwen has not any grievance with your company.

MR. PLOTKINS: The present Act does not permit of any other type of operation than the major companies' basis of operation?

A That is right.

Q As interpreted by the officers of the Department. Therefore we are in continuous trouble?

A That is right.

MR. FRAWLEY: You are still operating?

MR. PLOTKINS: We refuse to be put out. We have no license. We are criminals at the present time and we have been for several years. They only grant us the license the year after it is all over?

A We are always one year behind.

Q But they collect the money right on time?

A We have paid our taxes on the basis that they demand.

Q Yes?

A In connection with this licensing.

Q THE CHAIRMAN: You get your license when the year has expired?

MR. PLOTKINS: Yes. The trouble is all settled then because they do not want to know what they want to do.

MR. FRAWLEY: Because it takes them that long to understand what you are wanting to do.

MR. PLOTKINS: Possibly.

Q In connection with this license, do you recall Mr. Gilbert that there was an attempt through the Highway Traffic Act to regulate transportation of gasoline in drums, or lubricating oils and greases?

A I remember it in a general way.

Q What was the effect of that regulation?

A Apparently it raised so much resentment that it was withdrawn.

Q Yes, but what did they try to do there?

THE CHAIRMAN: Weren't you working out a brief on this?

A Yes, I am, but I just wanted to cover it from someone else's viewpoint.

A I am pretty hazy on that.

MR. FRAWLEY: You can join Mr. Gilbert's viewpoint in this submission of yours.

MR. PLOTKINS: Yes, I will do that.

Q So that in your opinion, based on your conversation with Mr. McEwen, the only reason they refused to recognize our dealers or agents, whatever you may call them, as cartage men, were they would have to be licensed because we have

to give them an allowance in the form of a commission?

A Yes. If they came in and got a drum of gas and paid the list price, there would be no license necessary.

Q The trouble is we have to help them with the commissions so as to make it possible for them to become loyal representatives of our company?

A That is right.

Q At that point, do you recall the trouble we had when we had cartage agents, three or four or five in the one district handling our product and the complaints we received from farmers as to substitution?

A Yes. We had a lot of complaints.

Q Give us a little information on that. Because that is one of the things that led us to more or less adopt the viewpoint of the Department and only appoint one man?

A We have always made White gas of a high quality. That has been our major product from the refinery. We have really pushed it and boosted it and it has been a good product and it has been admitted in the market by everybody. We had a lot of trouble in 1935. There are a lot of cheap gases, well, I won't say cheap, but lower-priced White products came on the market. It was a blending of kerosene and casing head and so on, a 550-end point structure, and so forth. An agent could take an order from a farmer, take an order to bring him say five drums of Lion White. He could buy those lower-priced products and make 2 to 2½¢ a gallon more profit by buying somebody else's product and substituting it for our product.

Q MR. FRAWLEY: It would be pretty hard

to stop that?

A It was if you dealt with every trucker in the district. One reason we were forced to come to one representative in the district is if you get a trucker handling these products, all your products and it is worth his while not to leave and we also give him a discount to help tie him to us. In other words, he has sales discount.

Q MR. FRAWLEY: He was buying and selling. This man who came in with his truck.....?

MR. PLOTKINS: No, he was not buying and selling. He was buying on an actual order from the farmer.

A Yes.

Q There is another thing that will prove that. Is it not necessary for a farmer to buy gasoline from us, according to the Government regulations, is it not a condition precedent that he must have an order and a coupon?

A That is right.

Q So that the dealer or cartage agent cannot buy for a farmer unless he has received an order and a coupon?

A I think that can be broadened a little bit. I may be a trucker in a district and I may know that my customer, John Jones, will want say five drums of gasoline at a certain time. It is not necessary for me to go to him and get his coupons.

Q Why?

A I am not going to make that extra trip if I can avoid doing it.

Q But how are you going to produce the coupons?

A He would probably pay the tax and collect the coupons after.

Q But what is the general situation?

A The general situation is to collect the coupons and get the farmer's drums and come in and purchase it.

Q Is it not usual for the farmer to come in and say "Go to such and such a company and here is the coupons and here is the cash and here is the drums, and go in and buy for me so and so?"

A Yes, that is right.

Q That is 99½% of these cases?

A Yes.

Q So we have a distinct connection between that farmer and our company of supplied and supplier?

A Yes.

Q The man in between is only a cartage agent?

A Yes.

Q And the only reason we give him an extra commission is because of competitive conditions?

A That is right.

Q That intervene and have forced us to make it possible for him to live?

A Yes.

Q And continue to handle our product?

A If we are going to keep in business, it is necessary for us to do that.

Q THE CHAIRMAN: What about your drums? You do not supply drums?

A No, we do not supply drums. We sell drums.

Q For cash?

A With our representative agents, who have a fair gallonage,

we sell the drums on 20% cash and the balance at ½¢ a gallon.

MR. PLOTKINS: But to the farmers?

A To the farmers? They pay cash. We do not finance drums to farmers at all.

Q THE CHAIRMAN: You do not have to bother with this free delivery from distribution points?

A We do not deliver any ourselves except through the established outlets. Our prices are based on a come-and-get-it price.

Q You are not faced with the burden of free delivery or the burden of the loss incident to sending out drums o farmers?

A We are not burdened with the actual operation, but we are burdened with meeting that opposition.

Q MR. COMMISSIONER LIPSETT: Your transportation charge really covers delivery to the farmers house, I suppose?

A We make no charge for transportation. Our price is basis Calgary at a certain price.

Q I know, but your traffic transportation charge from Calgary includes delivery to the farmer's house?

A Yes, he is usually located in such..... You see, our dealer, we do not claim he will take in a whole area, but he may live in the midst of we will say 15 or 20 farmers who are his customers and he is enabled to live right there, and he can give them the service that is charged in the price? whatever charge he makes. We do not control that at all. Conditions control it.

Q MR. FRAWLEY: Mr. Gilbert, I think it is

important for the Commission to know whether or not this trucker buys the gasoline or not. I am not concerned with whether Mr. McEwen in Edmonton thinks he does or not, but that this Commission may know whether he does. That is all. What are the mechanics of the transaction? The trucker comes to your refinery and buys a quantity of Lion White or he takes physical possession of a quantity of Lion White in a big tank truck or in a bunch of empty barrels on a stake truck. What is the money transaction between you?

MR. PLOTKINS: It is not so simple as that. What actually happens is, when the dealer comes in he does not go into the office and throw down the coupons. You know that the clerk asks him what he wants and for whom?

A Yes.

Q And the clerk makes out the voucher direct to the farmer?

A No. That has been our procedure all the time, but you take for instance Edmonton, we may have 12 or 15 trucks come in at the one time and for the matter of convenience we have been making the one invoice to cover the whole delivery. That is just a matter of quicker deliveries to trucks, and getting them out faster. Our practice has been to make out the invoice direct to the farmer and that would be our practice at the present time if it was not for the amount of time it takes.

Q MR. FRAWLEY: What is the practice?

MR. PLOTKINS: Our practice has been to make the invoice direct to the farmer because we do not want the farmer to receive an indirect invoice and make it possible

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for the trucker to substitute products?

A That is the statement generally except in these rush times when they might be at our place for two hours making out copies.

Q I know it is troublesome and I know it causes a lot of dissatisfaction, but nevertheless, that is the instructions?

A That is the instructions, yes.

Q But you find that our managers of these stations depart from them for convenience's sake?

A That is the only reason.

Q But I have always insisted and the management has always insisted for various reasons, apart from taxes, that we deal or that we cover each sale direct to the farmer with a personal invoice?

A Yes.

Q Now is it not a fact that the cartage man goes in and throws down a ticket for John Jones and so much money and he says "I want a drum of Lion White for John Jones," and our clerk puts down John Jones and whatever is shown on the coupon, and the coupon number to justify the collection of only 1¢ instead of 7¢ tax?

A That is right.

Q And the cartage man delivers the money that presumably was paid by John Jones?

A Yes.

Q For the drum of Lion White?

A Yes.

Q And the cartage man goes back and delivers that drum. But that was the property of the farmer?

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THE CHAIRMAN: You say the property of the farmer?

MR. PLOTKINS: Yes, the drum is.

Q MR. FRAWLEY: Now let us see if that is a fact. In most cases what is the situation?

A We have no way of knowing. As a general it is the farmer's property.

Q MR.PLOTKINS: The cartage man would not have hundreds of drums?

A No.

Q He would have to get the drums from the farmer?

THE CHAIRMAN: It may be an Imperial or a British American drum.

MR. PLOTKINS: No, Your Lordship, on that subject, it is no use going into it now. The Imperial says "that is our drum," but they have no proof that it is.

THE CHAIRMAN: Because they have sold some?

MR. PLOTKINS: They have sold some and their name being on it does not mean anything. When we sell drums we have our name on them, but they are still the other man's drumsbecause he has paid for them?

A I think I can answer Mr. Frawley's question. Where our company had 250 agents in the past, to my knowledge the invoices are made direct to the farmer. But I was confusing it with the 36 other agents who are dealing in consignment stock and that is a little bit different story. The average trucking agent, he comes in and buys that way, I think, and to the best of my knowledge practically all of these

invoices would be direct to the farmer.

Q Is not another reason why the agent insists on having the ticket made out to the farmer is so as to save any trouble with the police or with the Department?

A I cannot say why they do that, but it would seem reasonable.

Q Is it not your experience that the police and the Department continuously bother these truckers?

A Yes, they do that.

Q Continuously?

A Yes.

Q So that they are trying to figure out ways and means of not getting into trouble?

A That is right.

Q And the way to do that is just to buy for the farmer and they take and make the invoice direct to the farmer?

A Yes.

Q And charge a straight cartage allowance?

Q THE CHAIRMAN: Where, in order to save time, you are invoicing the other way, how do you work it out? What is the mechanics of that?

A How do you mean?

Q Well you say that sometimes where they are pressed, with a lot of trucks in at once, they do not make out these invoices to the farmer. Who do they make them out to?

A They make them out to the dealer.

Q And what do you do about these coupons?

A We accept them as dealer coupons.

Q And they are accepted as that by the Government?

MR. FRAWLEY: They are what?

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A Accepted as dealer coupons.

MR. PLOTKINS: What we do, or what the manager of the station does.....

A The same as the coupons the major company agent turns in for his bulk station, he would turn them in to cover certain sales.

Q MR. PLOTKINS: In that connection, every sale can be traced through the coupon?

A Yes.

Q So that even though it is invoiced to the agent or to the dealer in our case, the Department having the number of the coupon could trace directly the sale to the farmer?

A Yes. I do not know the actual office routine of handling coupons. That is out of my line entirely.

Q You do know that every sale they must have a coupon or pay the 7¢ tax?

A Absolutely.

Q So there would be a definite possibility on the part of the inspector or the Licensing Act Department to trace every shipment?

A They do do that. Mr. Appleton checks our sales all the time and he is apparently satisfied they are open and above board.

Q THE CHAIRMAN: You act as jobber for the Texaco in connection with some of their products, don't you?

A That is right.

Q I suppose you would be prepared to answer upon a discussion of jobbers?

MR. PLOTKINS: Yes.

(At this stage the Hearing was adjourned until 9:00 a. m. 1st August, 1939)

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta August 1st, 1939

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WITNESS:

E X H I B I T S

EXHIBITS (Continued) Page

MR. FRAWLEY: Well Mr. Chairman, there may have been a little misunderstanding, which will not be unwelcome at all. Mr. Plotkins, I told him yesterday afternoon that the Canadian Oil Companies people were here from Toronto and asked him if he would help to get them away quickly and he said he would be very glad to do so. I did not mean that he would not be here at all this morning to go on, I meant that he could come and perhaps get through early enough so that we could finish with them this morning but he has taken me literally and he has interrupted his evidence in order that we may accommodate the Canadian people who are here, so I will call them now.

CLARENCE HERBERT TEW, having been first duly sworn, examined by Mr. Frawley said:

Q Mr. Tew, you live in Toronto?

A Yes.

Q You are an official of the Canadian Oil Companies, Ltd.?

A That is correct.

Q In what capacity?

A I am employed as the auditor of the Head Office and engaged in any work of special nature that is required.

Q You are prepared to present to the Commission some financial information with regard to the company's affairs for the year 1938?

A That is right, Mr. Frawley. We have not prepared a brief. We have just submitted to you the presentation of this with the schedules requested. We have not gone to the trouble of preparing a brief but we thought per-

haps we could forego that. We are represented here by Mr. Beamish, the Manager for Western Canada and Mr. Ciley, the Supervisor for this Province.

Q You mean from that that you will be able to answer any questions which we may ask?

A We think so.

Q Probably merely for convenience sake later you might yourself, just to supplement your evidence with some sort of memorandum covering what you have said in statement form, for the convenience of the Commission?

A I will be pleased to do that.

Q Then, Mr. Tew, what I would like to have you file is the financial information of your company, something in the nature of a balance sheet for the year 1938 and a profit and loss statement showing the company's assets in the Province of Alberta and the profit or loss on your operations in 1938 but perhaps before that it might be well that you give a brief outline of the history of your company, how long you have been operating in the Province and what the nature of your operation is, where you refine your products and the scope of your operation, the products in which you deal and where they come from and the extent of your outlets and something of that sort in a general way which can be developed by yourself?

A I will be pleased to do that. The original statement you have there, Mr. Frawley, and I have a copy of it.

Q How many have you got of these?

A I just have the duplicate in the complete state.

MR. FRAWLEY: It would be well to file this and mark it, and we had better have copies made

either by the company or by myself.

(STATEMENT PRODUCED BY WITNESS HERE MARKED AS EXHIBIT "547").

MR. FRAWLEY: This Mr. Chairman, is entitled "Canadian Oil Companies, Limited, information as requested by Royal Commission on Petroleum Industry, Province of Alberta", it was prepared in answer to a sort of questionnaire by myself which was drawn up with the idea of obtaining the high-lights of the company's operations in this Province for us to use this as a basis, if you like Mr. Tew?

THE CHAIRMAN: Let us first hear what the company is, where it operates and what it does.

A Canadian Oil Companies, Limited, have marketed motor fuels, lubricating oils and greases in the Province of Alberta since the year 1908. Such products have been marketed under the well-known brand names of White Rose Gasolines and Enarco Motor Oils and Greases.

Q MAJOR LIPSETT: It is gasolines only that you buy in Alberta?

A And the white goods, kerosene and so on.

We operate only one refinery, situated Petrolia, Ontario, and as it is not practical nor economical to bring motor fuels into Alberta from that point, we buy these products in the Province of Alberta. As for lubricating oils, greases and other petroleum products, we sell only our own products of production which are manufactured at Petrolia, Ontario.

The company's marketing facilities and organization in this Province is made up as

follows:

An office in Calgary under the late management of Mr. W. C. Stirling, recently deceased. An office staff comprised of eight employees. A staff of five salesmen. Warehouses and storage facilities at the following points:

Q THE CHAIRMAN: How large a refinery is that at Petrolia?

A How large?

Q Yes?

A It has a capacity of 3,000 barrels per day. It is equipped with a cracking, a topping and cracking plant I should say besides the gasoline of course, it is fully equipped to manufacture all products of petroleum right down to oils and greases, wax, candles and petroleum coke.

Q The oils and greases which you sell in the West, are they manufactured in Petrolia?

A That is correct.

Q You do not import anything from the United States?

A We import what we call bright stock and the oils for the purposes of blending these Pennsylvania's at our plant, which must be purchsed in Pennsylvania in order to obtain the insignia of the Pennsylvania association, that is marketed under the name of our Penn Enarco, Penn Oil.

A summary of the physical equipment and personnel employed in Alberta is as follows: Office buildings, one situated in Calgary; main stations three, namely Edmonton, Calgary and Lethbridge; bulk agencies 8; warehouse agencies 1; company owned service stations, land owned 3; company owned service

stations land leased, none; service stations, third-party leases 20; company owned trucks 9; number of steel barrels in Alberta, approximately 10,575; management one; office staff 8; salesmen and supervisors 6; auditors none; other salaried employees 9.That information is at December 31st, 1938.

Again at December 31st, 1938 the warehouses and storage facilities were at the following points: Calgary, number of storage tanks 8, with a capacity of 85,276 gallons; Lethbridge 5; Blairmore 3; Edmonton 6; Camrose 5; Red Deer 5; Didsbury 3; Stavely 3; Vulcan 3; Vegreville 3; Viking 3; they have a total storage capacity of 457,945 gallons, that is at December 31st, 1938. We might file a statement of sales as to total only. It might be interesting if I read the sales by products for the year 1938: White Rose Gasoline 18,720 gallons; Ethyl Gasoline 262,326 gallons; White Rose No-Knock Gasoline 1,098,196 gallons and No-Brand Gasoline 574,189 gallons; Turner Valley 111,034 gallons, making the total gallons sold for the year 1938, 2,064,465 gallons.

Kerosene amounted to 90,966 gallons; Distillate and Fuel Oil 202,280 gallons; Enarco Motor Oil90,765 gallons; Enarco Penn Motor Oil 3,192 gallons; National Motor Oil 27,056 gallons; Lubricating Oil 7,508 gallons; Black Beauty Axle Grease 20,200 pounds; Transmission and Gear Lubricants 94,284 pounds; Pressure Gun Grease and Chassis Lubricants 149,977 lbs other miscellaneous greases 25,952 pounds; Wax and candles 24,012 pounds, making a total gallonage of sales

in the Province of Alberta in 1938, 2,486,573 gallons and pounds a total of 314,425.

Q What was that total again please?

A 2,486,573 gallons.

Q Have you the sales value for each of those products or just the quantities?

A Just the quantities.

Q What is the next thing you have?

A The next schedule there is a break-down or trend of these white goods by month and by percentages.

Q Oh yes, I see what you are doing now. You are referring to the questionnaire which I sent you quite recently?

A Well actually that questionnaire followed, the first two questions, along the same manner that we had previously submitted but these were the only two which were duplicated.

Q Now you are going to give us the seasonable trend of white products?

A We will be pleased to do that, do you care for it by gallons or just by percent.

Q By gallons and by percent, if you have both?

A Yes I have. The month of January, this is the gallonage of white goods by month, January 93,778 or 4.05%; February 75,743 gallons or 3.27%; March 129,918 gallons or 5.61%; April 203,857 gallons or 8.80%; May 260,112 gallons or 11.23%; June 216,647 gallons or 9.35%; July 209,405 gallons or 9.04%; August 223,672 gallons or 9.66%; September 338,483 gallons or 14.62%; October 256,909 gallons or 11.09%; November 170,432 gallons or

7.36%; December 136,979 gallons or 5.92%.

Q MR. FRAWLEY: We might mark each one of these as Exhibits, Mr. Chairman. It occurred to me if Mr. Tew compiled all of this information in the folder and marked it as one exhibit?

A It would be necessary only to insert these two statements into that folder which you already have, Mr. Frawley.

THE CHAIRMAN: Into Exhibit "547".

Q MR. FRAWLEY: Are those the only two instances you are going to depart from the folder which you gave me some time ago?

A That is correct and these two were requested.

Q In the recent correspondence?

A Yes, which enlarges upon the statements which we have.

THE CHAIRMAN: That will be Exhibit "547" A and B then.

(STATEMENT SHOWING SALES IN THE PROVINCE OF ALBERTA PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "547" (A).

(STATEMENT CANADIAN OIL COMPANIES, GALLONAGE WHITE GOODS, TREND BY MONTH 1938, HERE MARKED AS EXHIBIT "547" (B).

Q Yes, you might enlarge upon that?

THE CHAIRMAN: Which statement is which?

MR. FRAWLEY: You call the first "Sales from Province of Alberta".

WITNESS: That is sales in the Province.

Q MR. FRAWLEY: These are the Alberta sales

in any event?

A Yes.

Q Sales in the Province of Alberta we might call it?

A Yes.

MR. FRAWLEY: The reporter might make that change then.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: From gasoline down to wax and candles, that is Exhibit "547" (A), and Exhibit "547" (B) is a statement showing the seasonable trend in white goods in gallons and in percentages for the year 1938, the trend by month?

A Our sales of course depend upon crop conditions to a certain extent and that is reflected by the total of 46.71 of our total gallonage sales were shipped in the four months, July, August, September and October. You will notice that there is almost 15% in the month of September alone.

Q MR. FRAWLEY: Now Mr. Tew, if you have nothing more to say about the Exhibit you have now put in I think we will take this folder and run through it and then I have some general questions to ask you about your company and some general marketing questions to ask. Now the first Schedule, Schedule A in this folder, Exhibit "547", is a price list of the various grades of gasoline and distillates which you purchased from Imperial Oil as of December 31st, 1938; those are the prices at which you purchased those products from Imperial Oil?

A Yes.

Q Now you show Calgary and Edmonton, first of all, what is the basis on which you purchased from the Imperial and

what are the prices?

A At December 31st, 1938, we purchased on a price F. O. B. destination; at least that is the way we bought the gasoline and the white products and I also have a list of our prices as at each one of our bulk points. I did not deem it necessary to give all that information to you.

Q So there will be no confusion about prices and costs, I am now talking about your cost price, the price at which you purchased from Imperial?

A Yes.

Q You call that the price paid?

A We call that the price and it is bought F. O. B. destination.

Q But it is the cost to you?

A It is the cost to us.

Q I think for simplicity's sake, if you would say the cost of your products laid in at these various points. You say you bought as of December 31st, 1938 and this folder was prepared on a basis F. O. B. destination?

A Yes, those are the prices we paid at those points.

Q At so many cents under tank waggon?

A Yes.

Q At the various points?

A That is right.

Q And how many points have you in the Province, how many bulk points in the Province?

A Eleven at that time.

Q Now do you buy your products by means of a contract, have you a contract with the Imperial Oil?

A We have no contract.

Q But you buy exclusively from the Imperial Oil?

A No we do not. We buy on specifications and according to price. If we could get a better price from someone else, the British American for instance, we buy from the British American; as a matter of fact we buy at several points from the British American at the present time.

Q At several points in Alberta?

A I understand so, yes; that agreement does not carry on regularly but if we can get a better price at any one time we give them the business.

Q Yes?

The gasoline, our products are made to our specifications of course.

Q Anyway let us take it, when you say they manufacture to your specifications----

Q MAJOR LIPSETT: Does that mean that they make any special separate products for you on order or does your specifications and theirs coincide?

A I imageine they coincide to a certain extent but we definitely specify a certain octane rating or such a specification, we definitely state the product we want.

Q That is not any higher I take it than either of these two refineries manufacture?

A I understand it averages very much the same.

Q MR. FRAWLEY: Well it is a little more definite than that. You see here are the Imperial Oil Company's specifications, Exhibit "302" and "303", covering all of their products, Imperial only, Esso

Gasoline, and Three-Star, Premier Gasoline, Acto Gasoline, Distillates and so on, now we are told by the Imperial that the products that they make for their jobbers are these products with the exception that in their own gasolines Esso and Three-Star they introduce a solvent oil, that is the patented gasoline they speak of in their advertising, they introduce a solvent oil and with the exception of the introduction of the solvent oil the gasoline your company, McColl-Frontenac, the Union, the North Star, gets from the Imperial is this gasoline?

A Yes.

Q That would help to simplify it and if you know that to be so we can take these products specifications of the Imperial Oil, Exhibit "302" and "303", as being your gasoline with the exception that I have mentioned?

(Go to number 12,601)

C. H. Tew

A Now, I have a list of our specifications here. We will just see how closely they co-incide.

Q Have you got anything in the folder?

A That is in the folder. Schedule "E".

Q Well then, we do not need to worry so much about it. That is now in evidence. These are your specifications?

A Yes.

Q Schedule "E" Exhibit "547". As at what date?

A All Exhibits are as at December 31.

Q Well you show both summer and winter?

A Yes.

Q Then this would be true today?

A That is correct.

Q It would be interesting to look at it for a second. I will call off the octane ratings, for instance. The octane number of Ethyl gasoline, summer and winter both the same, 76.5 to 77?

A The same as our Ethyl gasoline.

Q By the C. F. R. M. method. 3 Star gasoline, 71 to 71.5?

A That is the same as our White Rose.

Q And the sulphur percentage of Ethyl gasoline is 0.100 maximum, and on 3 Star, 0.100 maximum?

A We do not specify the sulphur content.

Q Getting back to the purchase of your gasoline, you say that you have no contract and that you are free to depart at any time from the Imperial Oil Company in the purchase of any product you are purchasing from them?

That is correct.

Q On some notice, I suppose?

A I do not believe they require any notice.

C. H. Tew

Q You have no written contract at all?

A Absolutely none.

Q You did recently receive some price changes from them?

A That is correct.

Q You received that information simply by letter from the company?

A Yes.

Q Do you happen to have that letter with you?

A No, I have not. I have got a copy of the prices.

Q I think it would be a good time to put that on the record. It follows your Schedule "A" which are your prices as of last December?

A This is just rough.

Q We will file it and perhaps withdraw it and substitute a more complete document?

A Yes, that will be satisfactory. That records it as at our points.

Q These are the prices effective July 10th, 1939?

A Yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "548")

Q This Exhibit "548" was made up as a result of a notice you got from the Refining Department of the Imperial Oil Company indicating their new prices and new method of selling goods to jobbers which was to be effective 10th July?

A Yes.

Q Previously you had bought at destination so many cents under tank wagon?

A Yes.

Q And now you buy f. o. b. the refinery?

C. H. Tew

A That is correct.

Q You get it to your bulk point at your own expense?

A Yes, that is correct..

Q It would be interesting to know if you have made a calculation to ascertain the savings or otherwise there might be on the new basis, that is, the new f. o. b. refinery price?

THE CHAIRMAN: Could we learn just what the reductions are by virtue of the new price? We have heard a lot about the Imperial reducing price.

MR. FRAWLEY: Yes, I will do so, although we have had this. Of course, it is very hard to remember. Mr. Clayton was in the same position exactly and he filed a letter written by himself to Mr. Cottle forwarding th advice he had received from the Imperial, and I assumed at that time that the other jobbers would be treated the same, and Mr. Tew now confirms that. The Imperial had gone away from selling jobbers at so many cents under the tank wagon at various destination points, and they now put it on a refinery basis of so many cents.

THE CHAIRMAN: Nobody has as yet worked out exactly what that means in price.

MR. FRAWLEY: Except Mr. Tew has done it here because Exhibit "548" shows Mr. Tew's new prices at all of his bulk points throughout the province, 16 or so of them.

THE CHAIRMAN: All right.

MR. FRAWLEY: We can take Calgary and Edmonton. Well, take Edmonton, that is a point away from

C. H. Tew

the refinery.

MR. COMMISSIONER LIPSETT: Does he show the old prices?

MR. FRAWLEY: Yes, in Exhibit "547" Mr. Tew's laid in cost at Edmonton for green gas, standard gasoline that is, was 13½¢. Now Mr. Tew's price in Edmonton..... well, you had better tell us, what is your new laid in price from Imperial after you get the gas to Edmonton?

A 13.1¢.

Q THE CHAIRMAN: And it was?

A It was 13½¢.

Q MR. FRAWLEY: There is a saving there of 4/10ths of a cent?

A Yes.

Q Have you passed that saving on to the consumer in Edmonton?

A The tank wagon price in Edmonton on that basis is 19.4¢.

Q 19.4¢ as against?

A 19.5¢.

Q What has the tank wagon got to do with it? You have now a new laid in cost of 4/10ths of a cent to the good?

A That is correct.

Q Well, was there any change in the tank wagon?

A There was, from 19.5 to 19.4, a saving of 1/10th of a cent.

Q My question was, was there any change in the tank wagon and what I should say is, did the Imperial post a new tank wagon price? That is what you took from my question?

A Yes.

Q Because your price is..... the price you follow is the Imperial Oil tank wagon posted price?

A Correct.

C.H. Tew

Q Is this the new Imperial posted tank wagon Schedule?

A I believe so.

MR. FRAWLEY: I think we had better file this, Mr. Chairman, and then we can discuss it more intelligently. I am filing the Imperial Oil's new posted tank wagon price effective July 24, 1939.

THE CHAIRMAN: Any objection, Mr. Nolan?

MR. NOLAN: No, Sir.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "549")

THE CHAIRMAN: Now what is that?

MR. FRAWLEY: This is the new posted tank wagon price effective July 24, 1939, and the description adds "Showing allowances where effective and net reductions."

THE CHAIRMAN: The other statement of the Imperial Oil prices to Canadian Oils was effective July 10.

MR. FRAWLEY: Yes, was effective July 10. There is a period there of 14 days when your price was lower before the tank wagon became effective. Is there any significance in that at all or did you need that time?

A I understand there was an intention shortly before July 10th to pass the new tank wagon prices. Apparently that either was done and there were errors in it, or further reductions were made, and actually there was no change until July 24th.

Q Originally you expected to have the new tank wagon prices earlier than the 10th?

A We certainly did.

Q What is the relation between the 13.1¢ as it now is, or the 13.5 as it was at Edmonton? That is the laid in

C. H. Tew

jobber price at Edmonton, and the posted tank wagon price, either the previous one to the 24th of July or the new one that became effective on the 24th of July, namely, Exhibit "549"?

A Before this new price came into effect, there was a straight differential between the tank wagon price and the cost price.

Q Of how much?

A On the standard brand, 6¢, as far as we were concerned.

Q Now you have gone off the so many cents differential under the tank wagon?

A Yes.

Q You have now gone to a straight laid in basis?

A Correct.

Q And that makes you free to decide how much marketing spread you require and fix your own price, charge your own price?

A Yes.

Q Have you done that?

A We are at the present time abiding by these tank wagon prices as posted by the Imperial Oil.

Q Yes, you are abiding by Exhibit "549", the new Imperial posted price?

A Yes.

Q Now, Mr. Cottle suggests that there is not any relation at all between the new list that Mr. Halverson has posted, the new tank wagon prices and the drop in the jobber prices. Do you understand differently, Mr. Tew?

A I understand that there is a difference in some cases.

C. H. Tew

For instance, in this Edmonton cost, there is a drop, but in other points it is slightly higher, and on the whole, I do not know whether there would be an actual saving to any extent whatsoever.

Q At no point in the Imperial Schedule has the tank wagon price been increased?

A No.

Q That is true, is it not?

A I understand so.

Q But in some instances your laid in cost on the new basis is perhaps a few points higher?

A That is right.

Q Does it not follow then that the two things have no relation? The new prices Mr. Halvorson gave you on the 10th of July and the new tank wagon prices which he posted for the year on the 24th of July?

A Yes, that is correct. There certainly is not the same relation between the two - there is no fixed relationship.

Q I gathered there was some in your mind because you said after you received the new prices on the 10th of July, you understood there was a new tank wagon price coming out. Did the Imperial people join the two things together as far as you were concerned?

A I cannot answer that. I do not know whether they did or not. We would naturally assume that there would be a new posted tank wagon price at the same time the price to us, the cost price, was either increased or reduced.

Q I see?

A In other words, we naturally expect to pass along to the consumer.....

C. H. Tew

Q Yes, any saving that there was?

A Yes.

Q Getting back to Edmonton. In Edmonton there is a saving of 4-10ths of a cent to you?

A Yes.

Q By abiding by the Imperial Oil tank wagon price, you have only given the consumer the benefit of 1-10th of your 4-10ths?

A Yes.

Q Why? Can you tell me why?

A I may say on the other hand there are points where our margin has been reduced.

Q Is that the answer?

A No, I would not say that was the answer.

Q Let us take another point. Let us go away down to Vulcan. Or let us go to Lethbridge. What is your new laid in cost at, or what was your cost at Lethbridge when you were 6¢ under the tank wagon?

A 11.7.

Q 11.7 was your price before?

A Yes.

Q Was your cost at the Lethbridge bulk station?

A That is correct.

Q 6¢ under the tank wagon?

A Yes.

Q What is it now?

A 12.6.

Q And Mr. Halverson's new tank wagon price at Lethbridge?

A Is 17.7.

C. H. Tew

Q So there is no change in Lethbridge in tank wagon? No, there is no change in the tank wagon on standard gasoline?

A That is correct, and yet our costs have been increased 9/10ths of a cent.

Q You say now 9/10ths of a cent more at Lethbridge than you did before, and you feel it impossible to increase the tank wagon to get that 9/10ths of a cent?

A We feel we cannot increase our price and expect to collect that particular price which would be in exesss of the other major companies.

Q I will get to the Southern Alberta situation in due course and ask you your views about that. But at the moment I am just wondering why, what is the answer you have for not lowering the Edmonton tank wagon to the full extent that you benefit by the new Imperial Oil prices and similarly where there is a benefit?

A We have of course in the Province of Alberta, we sell a very small percentage of the gasoline in comparison with some of the other major companies and we, from that standpoint, are not able to go out and reduce or increase prices at will, because of this excess competition.

Q Frankly, to come right to it, you suffered a loss in your operations in Alberta in 1937 of $33,827.59?

A Yes, that is on our operations in Alberta.

Q And I hope you have a similar summary for 1938, have you, Mr. Tew?

A The 1938 is immediately following that.

Q Oh, yes. In 1938 you had a net loss of $18,462.12?

C. H. Tew

A That is correct.

Q Perhaps you might say to me you would be the last person that would be in a position to reduce the tank wagon prices at all to any point. But I am just wondering why your advantage has not been passed on. I want to have everything you have to say about it on the record. Did you discuss with the Imperial the question of bringing down the tank wagon price only to the extent of the saving they had given you in the new prices?

A Not to my knowledge.

Q Now take Calgary as the basic point. How did it work out before when you bought at 6¢ under the posted tank wagon? The posted tank wagon on 3 Star gasoline, standard gasoline, was 16½¢?

A That is right.

Q You bought at 11½¢?

A 10½.

Q And now you buy at.....?

A 10.3.

Q You save 2/10ths of a cent at Calgary?

A That is correct.

Q Why do you say 10.3? You had better give me the letter that you got. Didn't you get an advice note from the Imperial what these new prices are and the basis of them?

A I understand so, but I never saw that letter.

Q I wonder if you would be good enough to produce that because that is what we have from the North Star. I would show it to you if I could get my hands on it. Frankly, it shows 10¢ cost at the refinery. Perhaps that 3/10ths

C. H. Tew

of a cent has been calculated on moving it from the Imperial refinery to your own bulk plant. Would you say that is right?

A I would assume that to be correct.

Q THE CHAIRMAN: Who knows?

Q MR. FRAWLEY: Yes, is there somebody else who would be dealing with Mr. Halvorson in the matter of the prices to your company?

A Our vice-president would be in contact with them.

Q What you might do, perhaps, Mr. Tew, and it would oblige me if you would, could you get from your vice-president, perhaps by wire - it is not a very long document, or it was not in the case of the North Star - just the actual wording of the new prices and the new price change?

A Yes.

Q Which the Imperial Oil sent out?

A Yes.

Q Just a few days before the 10th of July?

A It may be possible it was done by telephone conversation and the Imperial Oil submitted those prices to us.

Q And both your offices are in Toronto?

A That is correct.

Q I will read into the record for your information, so that you can have it in front of you, what the new North Star prices were. Now perhaps I might just go one step farther. Do you operate a service station business?

A We lease oil stations in this province.

Q In Edmonton then have you any control over the price which the service station charges?

C. H. Tew

A We prefer not to have. We sell there also at a price.

Q In this case it appears that the tank wagon purchaser, the service station man, in other words, in Edmonton, has an advantage of 1/10th of a cent?

A Yes.

Q On and after the 24th of July?

A Yes.

Q Have you taken any steps to enquire or to see whether or not it is being passed on to the purchaser by the service station agent?

A Personally, I have made no enquiries about that. Possibly Mr. Ciley or Mr. Beamish may have.

Q What I was talking about was a letter dated 10th of July from the North Star Company at Winnipeg to Mr. Cottle, Commission Accountant, in which Mr. Clayton, the General Manager of the North Star, quoted in his letter the advice he had received from the Imperial. That advice reads as follows: "Applicable to shipments on and after July 10th, we quote you f. o. b. Western Refinery shipment price as follows: Base price tank car f. o. b. refinery, and he gives both Regina and Calgary, but I will just give you Calgary. Ethyl gasoline 11¢, "Q" colored gasoline 10¢, Standard White gasoline 9.20¢. Motor gasoline, White 9.20¢, Turner Valley gasoline 9.20¢, Water White kerosene 10¢, Tractor Distillate 8¢." And would you be good enough just to say whether precisely the same information was given to your head office?

A It may be that the advice received from our head office is available at this time. Mr. Ciley might have that,

that is the advice from our head office to the Alberta Division.

Q That might have contained the same quotations from the Imperial?

A It might have.

Q Who worked out Exhibit "548" showing the laid in cost at the various bulk plants?

A I made a copy of that from a type-written list.

Q From a type-written list??

A Yes.

Q Who prepared the type-written list?

A It was prepared by our Purchasing Department in Toronto.

Q It is the Calgary point that bothers me. There would be a switching charge of some kind there?

A Yes.

Q I think that is the answer to it. We will then pass from that?

A Yes, I understand it is.

THE CHAIRMAN: What is this answer?

Q MR. FRAWLEY: I put it to you a few minutes ago that there must be some charge, the tank car must be taken from the Imperial Oil Refinery in East Calgary to your bulk distribution plant which is situated, where?

A In West Calgary?

Q A distance of how many miles?

A MR. CILEY: I imagine about five miles.

MR. FRAWLEY: And I suggest to the Witness that is why he has increased the f. o. b. refinery price which is 10¢ by 3/10ths of a cent at the distributing point?

C. H. Tew

A That is the price paid by us.

Q I am anxious to know to what extent you have departed from the Imperial Oil in the purchase of your requirements for the year 1938. I find that you purchased from the Imperial 2,156,000 gallons, forgetting the rest of it and talking only about thousands - and from the British American 173,000, and from the Gas & Oil Products you purchased 48,000. And that is all. Now, what I am interested in is, the purchases from the British American. Was there any particular reason for that, or was that just a question of an emergency purchase?

A It might have been an emergency purchase, in the presence of an emergency or it might have been a difference in price. In other words, at one time we might have been able to buy a product to our specifications at a lesser price than we could from the I. O.

Q THE CHAIRMAN: You do not know which?

A No.

Q Who knows?

Q MR. FRAWLEY: Would somebody in your company know? Would Mr. Beamish know?

A Mr. Beamish might know.

Q Or Mr. Ciley?

A Yes.

Q Mr. Tew came primarily to present financial information to the Commission. But it is like so many other things we get off onto some other subject as we go along. But the Commission are anxious to know the relations between you and the Imperial. I take it you are as free as the air

to depart from the Imperial?

A Yes.

Q And to purchase 1 gallon or your total requirements?

A Yes.

Q The fact is you have for the last number of years, and it is a mere circumstance, it just happens that they.....?

A They gave us the prices and the service.

Q Can we say specification and service being equal you purchase from the Imperial?

A Price is the main thing.

Q Yes. Price, specification and service being equal, you purchase from the Imperial?

A Well, as I understand it, they are equipped to give us better service at the majority of our points, and that is the reason to a great extent.....

Q Well I will assume that with you. I think the British American have facilities at..... Well, what do you mean when you say they are equipped to give you better service? It is purely a refinery delivery?

A Yes.

Q And the railways or the truckers do the rest of it for you?

A Yes. But we require it at a definite time, on short notice.

Q It is a question of refinery service?

A Yes.

Q And you think they give you better refinery service than other people?

A I would not say they give us better service, but we have always been satisfied with their service.

Q I want to know if there is some inclination towards dealing

C. H. Tew

with the Imperial if the service, price and quality are the same as from the British American?

A Not to my knowledge is there any other reason.

Q There is not any complementary arrangement in Eastern Canada?

A Absolutely none. As a matter of fact, we buy very little from the Imperial Oil in the Province of Ontario, especially in the southern part.

Q Well now, I will leave some further questions of your relationship to the Imperial till we get your general views. I would like to get the rest of this financial information on the record, Mr. Tew. You can start I think now from the price at which your product is laid in at your various points. The next Schedule is a statement of capital investment as at December 31, 1938?

A Yes.

Q You might just run quickly over that Schedule "B", Mr. Tew and indicate what you have in this province?

A The capital investment as at December 31, 1938, our investment in sub-station plants.....

Q That means what?

A Bulk storage.

Q Bulk storage, and there is a list of those at some other place in the Schedule?

A That is correct. That amounts to $148,942.90.

(Go to Page 12,617)

made up of real estate $4,000.00; most of our stations naturally are located on the railway sidings for which we pay a small fee; construction $68,864.60; equipment $67,181.92; office furniture $8,976.39 and another item of equipment $1919.99; making the total $148,942.90.

Now our investment in service stations in the province is $47,833.98; that is made up of real estate $7,874.16; construction $26,982.24 and equipment $12,977.58, or a total of $47,833.98;

Our investment in automotive equipment is as follows, in one total, $30,915.47.

Q Yes, and your equipment loaned?

A Amounts to $28,612.53.

Q Total capital invested in the province as of July 31st, 1938?

A $256,304.88.

Q Yes. Now will you go to your Balance Sheet and Profit and Loss summary on the back of the folder for 1938; you show there that it is, let me ask you first, in the figures you have just read, Schedule "B", capital invested?

A Yes.

Q Is that depreciated or not depreciated?

A Not depreciated. It is cost.

Q And in the Balance Sheet you show the depreciated?

A No, sir, we show the cost figures. They are similar as a matter of fact, they should be identical with these figures.

Q You show you have depreciation reserves there, Mr. Tew?

A Yes.

Q I mean a person to find the depreciated capital investment need only deduct the depreciation reserve?

A That is correct.

Q We will get to that in a few moments. Now the next Schedule.

A The next Schedule is merely a breakdown by stations of that statement just read.

Q Yes, that is really "B-1", is it not?

A That is correct, and "B-2" is the same thing for service stations. It was not possible to get it all on the one sheet.

Schedule "C" has been covered already. We have elaborated on that particular Schedule and submitted an additional breakdown.

Q Schedule "C" is total sales of motor fuels in gallons broken down into gasoline, kerosene and distillates and fuel oil for 1938 and 1937?

A And that has been supplemented by that Schedule.

Q This morning?

A Yes.

Q Showing the seasonable trends?

A Yes, and there was also one on which we show each and every product of the company.

Q You are referring to Exhibit "547" (a) and (b)?

A Correct.

Q Now the next Schedule is "C-1"?

A Sales of gasoline in the Province of Alberta.

Q For 1938?

A For 1938.

Q Broken down as to each sub-station?

A By months.

Q By months?

A That again has been supplemented by that statement.

Q By the new Exhibit this morning?

A Yes. The percentages have been added to the totals there.

Q Now just before I pass from that, in 1939 you have added some stations?

A Yes.

Q And I think that, if you gave us a short Schedule showing the 1939 stations we might have it marked as an Exhibit related to "547" and by a separate letter would show, it would complete this, you have, you operated 12 bulk stations in 1938 and this year you are operating 16 so there are four stations to add?

A That is correct.

Q And if you would just have prepared a list of the 16 stations operated in 1939 we might add it to this Exhibit "549". Then passing to Schedule "D" which is a list of all outlets both wholesale and retail owned service stations, leased service stations, operated by the company?

A Yes.

Q Now you have given us in this Schedule the company's service stations, four company service stations, you might just read them into the record, Mr. Tew?

A The service stations located at Calgary, two in Edmonton and one in Lethbridge?

Q Yes.

A Those stations, of course, are all leased and in the case of the Calgary station the building itself is leased by us and re-leased.

Q I am going to ask you something about them later. Then you have wholesale warehouses, three of them, Lethbridge,

Edmonton and Calgary. You operate those?

A Yes, we operate those ourselves as distributing centres.

Q By salaried employees?

A That is correct.

Q And then you have a list of company agents?

A Yes, at Blaimore, Camrose, Didsbury , Entwistle, Red Deer, Stavely, Vegreville, Viking and Vulcan, December 31st.

Q Yes, and at each place you have just read you operate as agencies?

A That is correct.

Q With commission agents?

A That is correct.

Q And you have added to that, of course, the Edmonton, Lethbridge and Calgary stations?

A Yes.

Q And that makes 12 and you have 4 new agency stations, I take it, this year?

A That is right. We can name those for you now if you wish.

Q You might as well put them on the record?

A The new stations this year are St. Paul, you just check all this, Mr. Ciley, Vermilion, Foremost and Westlock.

MR. CILEY: No, Brooks, instead of Foremost.

WITNESS: St. Paul, Brooks, Vermilion and Westlock.

Q MR. FRAWLEY: Now the next Schedule, Schedule "E", is a Schedule of specifications and I do not think we need any more information about that. Then the Schedule "F" is a Schedule of the prices charged on all grades of gasolines and distillates, tank wagon price at

each wholesale outlet, now that was, this is a series of prices?

A Yes.

Q Effective May 5th, 1937, another list effective November 22nd, 1937, another January 5th, 1938, April 4th, 1938 and June 21st, 1938?

A And that last column shows the prices as at December 31st, 1938.

Q The last column is the one which continues to the other effective periods in this folder?

A That is correct.

Q And it shows each product and for each wholesale outlet?

A That is correct.

Q Then we come to Schedule "G", which is merely a statement reading as follows "All lubricating oils and greases marketed by this Company are refined and manufactured at the Company's refinery at Petrolia, Ontario", now are you able to give us some information, you are, I think, the only other refinery in Canada manufacturing lubricants and greases?

A That is correct.

Q There are only two refineries doing that in Canada, yourself and the Imperial Oil at Sarnia?

A That is correct.

Q And would you be able to submit a memorandum to the Commission, because probably we have not just directed sufficient attention to it so far as you are concerned in dealing with you up until now, I would like to have a more complete memorandum from you on the matter of lubricating oils and greases and they say that

imitation is the sincerest form of flattery, probably if we gave you Mr. Halverson's Exhibit "317" which is a folder dealing exclusively with lubricating oils as well as distribution and prices, I would like very much if you would consider that while you are in Edmonton and at your convenience endeavor to duplicate that or use this as a sort of pattern?

A Is that with reference to, for instance, the average selling price of our lubricating oils and greases?

Q Yes, and the spread, we would like to have some idea of the spread, the laid-in cost at Calgary or at the various points where they go?

A I suppose, Mr. Frawley, you have referred to our Schedules "G" where we have attempted to work out there the average laid-in cost and the average selling price of combined oils and greases.

Q Well now let us see what you have done. You have, as part of Schedule "G" of your Exhibit, which you might call "G-1", you have the cost price to the Branch, first of all the sale price of lubricating oils, what you call the average sale price per gallon of 67.60 cents?

A That is right.

Q And the cost to the Branch, the average again is 57.26 cents?

A And that again is our actual cost of manufacturing and laying products down in Calgary.

Q Now this Schedule shows the cost price to the Branch is 57.26 cents, which includes Head Office mark-up?

A Actual ----

Q A blank in that case?

A Yes, in other words, that figure of 57.26 cents is our actual

cost to the Company; in other words there is no margin of profit to the Head Office at all.

Q Yes. Now I am coming back to that question of lubricating oils, because Exhibit "G-1", or immediately following on after "G", it is probably not, yes, it is "G-1", is a profit and loss analysis by products for the year 1938. I would just like to ask you about this gasoline. The first column is gasoline and then kerosene, distillate, and fuel oil, lubricating oils and greases and total. It is certainly unfortunate that we have got only two of these documents. It makes it almost impossible for the Commissioners to follow this?

A I have an extra copy of this particular Schedule.

Q Let us see it then. This is the document, My Lord, and I think to get any value at all of what he is now saying, you should have this to follow it. Now first of all, Mr. Tew, this Exhibit is your own, this Exhibit is your own work, is it?

A Yes.

Q First of all tell the Commission why it was prepared and what it was intended to show and what it aims to do and what it does?

A This particular statement, as I understand, was requested by the Commission and there was a statement similar to this which you requested in your first letter to us.

Q I just want to be sure now, one of the things I asked you for was a Profit and Loss statement showing the result of your Company's operations in Alberta in 1937. Perhaps it was that question you had in mind, was it?

A There was one just before that.

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Q The prices charged for the wholesale and retail, by wholesale and retail, it should be, on lubricatns and greases?

A No, the statement, the "G" section, the statement of the source of supply of lubricating oils and greases marketed by your company and the laid down cost at Calgary of each one of the said lubricants and greases and that statement was compiled mostly to show that laid down cost of the lubricant oils and greases.

Q Yes, but you were more complete than that and you have shown the cost price and sale price of all of the products?

A I might say, Mr. Frawley, that so far as our accounting records are concerned, we make no distribution as to costs or keep records, separate dollars and cents, as well as value, of the distinct products, as gasoline, lubricating oils and greases and in order to arrive at the laid down cost of those lubricating oils and greases and show our actual operations in the handling of those products it was necessary for us to take the picture as a whole and start out in this way; in other words it would not tie up with any of our records whatsoever unless we had the complete picture.

Q So this particular statement then, profit and loss account, sales and profits, for the year 1938, endeavors to show the gross profit of all of your operations in this province?

A Yes.

Q Which is purely marketing with respect to all products?

A Yes, and to tie in with our actual financial stattements which follow on, which are prepared by our Alberta division.

Q Yes. Then just take the first item of gasoline, will you just explain just what you have done with respect to

gasoline now?

A In the case of gasoline the sales amounted to 2,064,465 gallons and we estimate that our average selling price in the Province of Alberta for the year 1938 amounted to 19.69 cents per gallon.

Q How did you arrive at that?

A As I say, we have no definite separation for the sales of gasoline actually and it was arrived at by, on an average basis.

Q You can find out, cannot you, you can take a bulk station at Vulcan and show how much, it is at tank wagon and how much 1 cent under tank wagon?

A Yes, we tested these figures in that manner.

Q You tested them in that manner?

A Yes.

Q And you feel satisfied, while it is an estimate, that it is a fair estimate of the average selling price of gasoline in 1938?

A Yes, we do.

Q All right?

A Now from that figure we arrived at a gross profit of 5.52.

Q The next figure is?

A I was going to say we arrive at that figure, in this statement we have to tie it in with our Alberta division operating statement and the prices that the Head Office billed the province, our sales department here, was slightly in excess of cost and that is the reason we showed the two figures here, the cost price to the Branch less an amount to bring it down to the actual cost to sell it.

Q There is a billing then, there is actually a billing from

the Toronto Head Office to the marketing division?

A There was in the year 1938. There is not at the present time.

Q You have abandoned that?

A That is right.

Q The Imperial Oil or the British American Oil, whatever purchases there were, were paid by the Head Office?

A That is right.

Q So it became a Head Office expense and you in turn billed that to Calgary?

A Yes.

Q Purely a bookkeeping proposition?

A Yes, and that has been eliminated this year.

Q But while you were doing that you add in 1938 a figure of 1.33 cents?

A That is right on an average.

Q How did you arrive at that?

A We made a practice of billing it slightly higher, just to cover expenses that were incurred by Head Office. In most cases it amounted to approximately 10%.

Q Then perhaps what I should ask you is this, how do you arrive at the figure of 13½ cents you charged the Branch?

A The cost price was taken and a percentage as a rule added to that, that is slightly less than 10% you will notice.

Q So Mr. Cottle will understand, you have endeavored to add about 10%, have you?

A Yes, it is slightly less than 10%.

Q Well now that then gives you a gross profit of 5½ cents?

A Right.

Q On gasoline?

A Yes.

Q And your spread from the Imperial was 6 cents?

A Yes, 6 cents on the brand ----

Q 6 cents on the "Q", yes, 6 cents on "Q" as appears from the Exhibit?

A Yes.

Q And something different on the other products?

A Yes.

Q Now then get on with the deductions?

A We made two deductions there, direct deductions, to arrive at gross probable profit. The deductions are as follows, gasoline rebates amounted to .37%, that is .37 cents.

Q What is that?

A That is actually the commission paid to dealer agents which amounted to, that year, $7,605.06.

Q Perhaps we had better stop and ask you a word about that, "dealer agent", is that some particular category?

A Yes, we have a definite agreement with that dealer-agent in those cases.

Q Well, going back to Schedule "D", where would that sort of man appear in this list of agents and stations, schedule "D"?

A As I understand, he does not, he is not included in that.

Q He is not included?

A Mr. Ciley or Mr. Boamish may be able to tell you more about the dealer-agents, the number of them in the province.

Q Yes, all right, the dealer-agents get a rebate of .37 cents per gallon?

A It amounts to about a half a cent a gallon.

Q Well they get something per gallon?

A Half a cent.

Q They get a half a cent per gallon?

A Yes.

Q Why should there be a half a cent then?

A Well they do not sell all.

Q It is just a result?

A The gallons are not shown there.

Q You simply take the total there, $7,605.06 and divide it into.....

A The gallons, for per gallon.

Q You divide it by 2,064,465 gallons?

A Yes.

Q All right. Then the next thing is commissions.

A Commission to agents or freight?

Q Why do you express it that way, "or freight"?

A Well, in some cases it is a freight allowance which is deducted from the gross profits to give our gross figures.

Q You had better tell us about that?

A In certain cases we pay agents a commission, at least a commission to our agents and in other cases on this commission we have made this deduction of freight which is actually our cost for transporting the product to the consumer; in other words, that is the actual cost of laying the merchandise down to the consumer, either through agents or direct.

Q Just tell us then the cases in which you do that, that is the information we want there, in which you do that very thing you have just described, in what cases do you do that?

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A Well we have an agent, say at these agency points.

Q Yes?

A And he operates on a commission basis.

Q Yes?

A And we pay him 5 cents a gallon say for Enarco motor oil or a certain, so many cents per gallon on gasoline.

Q Yes?

A Each to actually sell and transport and lay that merchandise down with the farmer or service station or dealer.

Q Yes?

A Then there are some cases where we actually, that in some manner would be comparable to freight, in other words, if we were to ship from say Calgary direct to one of our accounts, say a large account ----

Q Agency accounts you mean?

A Yes, if we were to do that we would stand the freight and sell on that basis and that is why we word it "commission to agents or freight"; in other words, you can look at that figure as either, as the cost of laying the merchandise down at that point.

Q Now, Mr. Tew, see if I understand you, if an agent at Camrose, Mr. Morphitt, Mr. Morphitt sells gasoline to the farmers in that district?

A Yes.

Q He delivers it to the farmers?

A Yes.

Q He gets from you people, I take it, 2 cents commission, he charges the posted tank wagon, the Imperial's posted tank wagon at Camrose and he delivers it out there for that?

A Yes.

Q So he gets 2 cents Commission?

A Yes.

Q Then he has some dealer-customers and he gets 1 cent on that, that is as I understand the practice?

A Yes.

Q But now what has there been grafted upon that very simple arrangement which makes you say "or freight".

A Well we have taken our expense of freight for the year 1938 and added it to that actual figure of commissions to give this 34,000; in other words, we want to take that out as a direct deduction on gross profits.

Q Mr. Cottle wants to know where freight comes on; we thought you bought those goods at so much under tank wagon and Camrose would be a certain definite number of cents per gallon, being 6 cents, under Imperial's Camrose tank wagon; in other words, you should be buying in Camrose for 19.6 less 6, 13.6 cents; now that is what you lay it in for; you have no freight?

A Well, of course, this statement of commissions to agents and freight carries right across that line and as you will notice the extension under lubricating oils and greases and to a certain extent the freight is on those products of oils and greases and most of our gasoline is moved by those agents or is moved by dealers and it is on a commission basis.

Q This is another way of perhaps expressing it, you call the item commission to agents and freight and then add $34,354.76, $1503.98 and so on?

A Yes, to make the total of $46,244.83.

Q Yes, but then let us ask you, is there any freight in the first item of $34,354.76 being gasoline?

A I would say "No.", the average per gallon there amounts to 1.66 cents which would be the average between the commission --

Q I think we have got it finally, your agents, so far as the sale of White goods are concerned, they are paid a straight commission?

A Yes. One reason the word "freight" is used there, Mr. Frawley, was that this Commission is paid for actually laying that merchandise down with that consumer and the commission we pay him is actually the freight we may have had to pay if we had shipped it ----

Q We will get to something about that in a few minutes. Then you have a gross trading profit on gasoline of 3.49%?

A Yes.

Q And you take off ---

A We take off all our expenses. There is the general expense, stock shortage, and inventory loss, service station expenses or a total of 3.07 cents.

Q Yes.

A And that deduction amounts to .42 cents to which we add our sundr revenue of .37 cents to give us a net profit on gasoline at .79 cents.

Q And sundry revenues include such things as commission on collecting gasoline tax and so on?

A Yes.

Q So that you have a gross margin after paying commissions of 3.49 cents and a net profit of .79 cents?

A Yes, and that is extended right across to include lubricating oils and greases. That total.

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Q Yes? And on lubricating oils and greases you lost $7,678.05?

A Yes. An average of 4.8 cents per gallon.

Q It must be borne in mind right here that this profit of .79 cents on gasoline and so on is arrived at without charging depreciation on your wholesale bulk outlets or without allocating expenses such as advertising, depreciation, etc.?

A Yes. In other words, we worked down to the profit there of $11,933.18, which we would estimate would be taken up by this charge of depreciation and advertising and administration, which have not been passed on by the head office for the Alberta Division.

Q Then when we get to your later statement, your whole statement and profit and loss, where you show a loss, where these other items are reflected?

A No, they are not reflected in the Alberta Division.

Q Not anywhere in the folder?

A They are in the expenses, they are passed on from head office. Depreciation and sub-station plants, and advertising and administration. And I might say to tie that up to the P. & L., for the Alberta Division you must bear in mind we have increased the cost of the gallons there and that is the reason we show the loss on that statement of eighteen thousand odd dollars, and it is tied up in the two bottom lines of that Schedule.

Q First of all, in the statement G-1, as I call it, immediately following on G, called Profit and Loss Analysis By products, 1938, that really shows a profit on the basis of that $11,933.18?

C. H. Tew.

A Without the allocation of advertising and administration or depreciation on the sub-station plants.

Q If you do that, before we go to the P. & L. statement at all, if you had charged depreciation on sub-station plants and administration expenses on head office salaries and all that sort of thing, can you say what would have happened to the apparent profit of $11,933.18?

A It would have been wiped out.

Q Let us go to the figure of $30,395.30, which is the total head office mark-up on gasoline, kerosene, distillate and fuel oil?

A Yes.

Q Would you explain that $30,395.30?

A As I said, the actual purchase of gasoline, kerosene, distillate and fuel oils, the transaction in the purchase was handled through the head office, and the bills were paid from the head office, and that merchandise was re-billed to the Alberta Division in excess of our costs. That $30,000.00 is brought down in below there to reconcile the statement.

Q You may say that the $30,395.30, your mark-up from your head office, would look after the head office?

A Yes.

Q Is it still true then that this, without charging--- it is still true it is made up without charging depreciation on sub-station plants and without advertising?

A That statement there is merely to reconcile the two statements.

Q Take the $30,395.30 away from the $11,933.18----

A That $11,000.00 is the net balance.

C. H. Tew.

Q If you take away from that or charge against it the head office mark-up of $30,395.30----

A You would not charge that against it. That has already been deducted?.

Q You have taken it away. It does not show your true position. You actually have the head office expense. This Alberta Branch cannot be left out in the air. It would not function without the head office charges and expenses?

A No, but we cannot say if that $30,000.00 is actually represented by this and this and this, actually to represent the depreciation,advertising or administration. It is on a percentage basis.

Q It is true. But it is an expense.It is a legitimate expense in the head office?

A That has increased the price to the Branch.

Q Because the Branch is entitled to be charged with the expense in part of operating the head office?

A Yes.

Q Your own time is spent in part in looking after the Alberta business?

A That is true.

Q And, therefore, the Alberta business should bear a portion of your salary?

A That is correct.

Q Perhaps I am not understanding. Mr. Cottle is suggesting that all you are saying is that you do not know whether it is too much or too little?

A It is slightly in excess on the basis of sales.

Q Why not take the $30,395.30, which is an expense?

A Yes.

Q And assume it to represent whatever you want to call it,

C. H. Tew.

depreciation on sub-station plants or advertising or administration expense, or executive salaries and so on?

A Yes.

Q And take the $30,000.00 and deduct it from your apparent profit of $11,933.18 - and when I say "deduct it" I mean to charge it against it?

A Yes.

Q You come out with precisely $18,462.12 of a loss, and as it strikes you there is nothing improper about that suggestion. That seems to be the true way of arriving at your true position?

A Yes.

Q All right. There might have been a little misunderstanding. Exhibit "H" are your printed prices to dealers of lubricating oils, and the agreement which you enter into with the dealers?

A Yes, that is our credit price list on automotive oils and greases only.

Q Mr. Cottle wants to ask you something more about G-1. What is the basis of allocating the allocatable costs such as General expenses, stock shortage and service station expense - what is the basis of allocating those on gasoline, kerosene, distillate, fuel oils, lubes and greases?

A That has been----as I say, we have not been able to definitely allocate those expenses against these products. We have done it more or less on an arbitrary basis and the fundamental basis was the gallonage basis.

Q The gallonage basis, the Alberta proportion of the whole Dominion gallonage?

A Actually that is not true, of course, as far as lubricating

oil and greases are concerned. There is a very small percentage there.

Q What is the basis. Mr. Cottle has to know these things, Mr. Tew, for his own work.

A In arriving at that we eliminated lubricating oils and greases. In other words, we knew very well what our expenses were on lubricating oils and greases.

Q How do you know that your general expense on lubricating oils and greases was 9.08 cents. If you would like, Mr. Tew, if this is something you have not considered and you could take time to consider that and answer me later. If you want to consider it. It might help if Mr. Cottle had a talk with you and then you went back on the stand and explained it in the light of your conversation with Mr. Cottle?

A Yes.

Q We now go to the balance sheets and profit and loss summaries and you file two, one for 1937 and one for 1938?

A The reason for that was you asked us last year to file that for 1937 and 1938 if it were completed.

Q Have you anything you want to call attention to in the balance sheet and the profit and loss summary. By the way, this is for the Alberta business. It is called Calgary Division but you call the Province of Alberta your Calgary Division?

A That is correct because the head office and the office buildings are in Calgary.

Q How do you account for the considerable difference in the two years' business. You had a loss in 1937 of $33,827.59, and in 1938, $18,462.12?

C. H. Tew.

A We had a considerable increase in gallonage in the sales in the year 1938. As a matter of fact, our Calgary Division led the other Divisions in the company.

Q Exhibit "179", statement of gallons sold, shows Canadian Oil Companies in 1937, 1,724,787¼ gallons, and in 1938, 2,296,549-4/7 gallons?

A That would be the reason for it.

Q You say that has a lot to do with it?

A Absolutely, yes.

Q MR. COMMISSIONER LIPSETT: That figure of $18,462.00 in 1938, is that a profit?

MR. FRAWLEY: No, that is a loss.

MR. COMMISSIONER LIPSETT: A loss each year?

MR. FRAWLEY: Yes, they reduce their loss from $33,000.00 in 1937 to $18,000.00 in 1938. If you had not charged the Alberta Division with that mark-up you would not have----well, it is right on here, you would have shown a profit of $11,000.00 in the Alberta Division?

A That is right.

Q But the fact is that the company is managed from Toronto?

A That is right. We actually made no bookkeeping entry on that, as far as Toronto is concerned.

MR. FRAWLEY: Now, I think we will get Mr. Tew's views on some of these general matters.

THE CHAIRMAN: Will you ascertain whether his company is an independent company?

MR. FRAWLEY: Yes, that is my very first question.

Q What can you tell us about your company, Mr. Tew, where it is incorporated, who owns it and its affiliations, if

any, and so on?

A I can tell you, Mr. Frawley, that our company went through a change in ownership as at January of this year. We were controlled by the holding in stock by the National Refining Company of Cleveland, Ohio, and their interest-----

Q You were owned prior to 1st January, 1939, through stock control by the National Refining Company of Cleveland, Ohio?

A Yes. They, as a matter of fact, did not dictate our policies or anything else, but we used their brand names.

Q You used their brand names. But they held the majority of the stock?

A That is correct.

Q And the balance of the stock ----

THE CHAIRMAN: What is the name of that company?

MR. FRAWLEY: The National Refining Company.

Q Do you know whether the National Refining Company is in turn owned by any of the other major companies in the United States?

A Not at that time it was not. They may be at this time. They got some new money in there. But we have severed our connection wholly. At that time, at the first of the year, Nesbitt, Thomson & Company of Montreal purchased from the National Refining Company their interest in the company. Now, it is a wholly owned Canadian company and controlled by the firm of Nesbitt, Thomson.

Q THE CHAIRMAN: Who are Nesbitt, Thomson acting for, do you know?

A As far as I know they are acting for themselves alone. They do control industrial corporations.

Q MR. FRAWLEY: Let me understand. Is there anything further you want to add. It may be of some

historical interest. Prior to the introduction of Nesbitt, Thomson, you were owned by the National Refining Company of Cleveland. Who owned the balance of the stock. Was it distributed among the public?

A It was distributed among the public, absolutely.

Q And the Board of Directors was elected, I suppose, at the instance of the National Refining Company?

A As a rule, yes. They had representatives on the directorate.

Q Did you have any other commercial relations with them except to use their brand names on oils and greases?

A They at one time placed ordersfor us for crude oil. In other words, we bought through the States and they placed the orders for us. They were set up to make that transaction for us.

Q That is when you were, as you are still, taking American crude?

A Yes.

Q The purchase arrangements were made by the National Refining Company?

A Yes.

Q And delivered to you by pipe line, I suppose, at Petrolia?

A Yes.

Q Now, getting back to the Imperial Oil, was there any control of any kind by any other Canadian corporation prior to the first of January, 1939?

A Absolutely none.

Q You were independent of the Imperial or British American or any of those companies?

A Yes.

Q On the first of January, 1939, Nesbitt, Thomson & Company

acquired stock control?

A By purchasing the interests of the National Refining Company wholly.

Q By purchasing in one block the interests of the National Refining Company?

A Yes.

Q The National Refining Company is now eliminated and Nesbitt, Thomson is substituted therefor?

A Yes.

Q The Nesbitt Thomson office being in Montreal?

A Yes.

Q Has there been an election of a new board since that time?

A Yes.

Q The new board is elected, I take it, then at the instance of Nesbitt Thomson interests?

A Yes.

Q Can you tell us who the directors are at the moment?

A I have not got them before me now but I can though tell you pretty well from memory. The only change they made in the prior board was the elimination of those directors which represented the National Refining Company and in their place they substituted their own men. Thomson himself, for instance, and Nesbitt, I believe, is a director. And John Irwin, who is associated with them, and Brigadier-General White of Montreal. They did not disturb our present directorship or our present management. We continued on there with the same directors only for those three who were on the board from the National Refining Company.

Q Mr. Irwin was formerly President of the McColl-Frontenac Company?

A That is correct.

Q And the Texas Company took over control of the McColl-Frontenac Company. I am right about that, am I not?

A That is right.

Q And Mr. Irwin was eliminated from the directorate at that time?

A Yes.

Q Of the McColl-Frontenac?

A Yes.

Q He then went into your company and he now is a director of your company?

A There was a period of time between those changes.

Q When he was out?

A Yes.

Q Is he also an officer of your company?

A Mr. Irwin is President.

Q Who are the other officers, perhaps you can tell us?

A Mr. Littlefield, the former President is Chairman of the Board. Mr. Frank C. West is Vice-President. Mr. Thomson, I believe, is also Vice-President, and the other officers remain the same, the Secretary of the company and the Treasurer of the company are the same.

Q Now, there has been no change in your Western Canadian Operations at all. You are still marketing-----

A It has not been disturbed.

Q Are you marketing elsewhere in Western Canada?

A We are marketing all through the West to the B. C. border.

Q In Manitoba you are marketing only. You are not refining?

A No, we are not refining.

Q From whom do you purchase all your requirements, or from whom do you purchase your requirements in Manitoba?

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A We buy again, depending on price, but I understand the bulk of it is purchased from the Imperial Oil.

Q Would the record for 1938 be somewhat similar to what I read you here in your Alberta purchases?

A I would think so, but Mr. Beamish could tell you.

Q And the same for Saskatchewan?

A Yes.

Q Do you market in British Columbia?

A No.

Q How much of the stock is held by Nesbitt, Thomson now, and their interests, and how much is in the hands of the public. Is it just 51% and 49%?

A It might be slightly more than 51% but it is not a great deal more. There is still the same amount practically as there was in the hands of the public. Our stock is held to a certain extent as an investment by some of the larger insurance companies, for instance.

Q THE CHAIRMAN: 51% to Nesbitt, Thomson, or a little better?

MR. FRAWLEY: Yes, 51% to Nesbitt, Thomson.

Q Have you anything to show whether you made a profit or a loss on your whole operations in 1938?

MR. PLOTKINS: I want to point out that when Mr. Hill was on the stand earlier in the Hearing, he made the statement he was the President of the National Refining Company and that he was Acting President temporarily to reorganize the company due to the fact the Standard Oil of New Jersey had purchased the company. So that we want to keep that in mind in dealing with this company or at least in listening to this evidence for the operations

prior to January, 1938?

A I understand the National Refining Company, at the same time they relinquished control of our company, went through considerable reorganization and change in their management.

MR. FRAWLEY: I do not know whether it matters, but do you infer from that that the new owners of the National Refining Company went out to find a purchaser of its Canadian company, wanted to get rid of their Canadian company?

A They had considerable holdings, I think, and this happened before - I think we may assume that they required the money and this was an opportunity of raising some money.

Q The National Company?

A Yes.

Q Which Standard company was it that took over the National Refining, do you know?

A I could not say. I do not know.

Q Now, did you make a profit or a loss on your whole Canadian operation in 1938?

A We made a profit.

Q For 1937 and for 1938?

A These are the printed balance sheets. It is probably available in any point. That is the 1938 balance sheet.

Q We might file this, Mr. Chairman, and ask him something about it.

THE CHAIRMAN: What is that?

MR. FRAWLEY: Balance sheet and profit and loss account and surplus account, 1938.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "550".)

Q This statement shows a net profit for the year on the whole operation of $342,317.21. Now, is it a fair question to ask you why you continue to do business in Alberta when you are losing so much every year. How long have these losses been in existence?

A They have been in existence for some considerable time. I would say since the year 1929, at any rate.

Q Since 1929 you have been losing every year?

A As far as this Division is concerned, on the basis that the statements are made up.

Q Well, with the head office mark-up, which is an honest way of setting it up, is it not, Mr. Tew?

A Yes.

Q It seems to me it should be. It is perfectly absurd to show results of your operations in Alberta as though there were no head office or no head office expense, would it not be?

A That is correct. We continue to do business in Alberta because of our reputation in the oil industry. We are probably thinking more of the representation in Eastern Canada. We are an old company. We started business out here in 1908 and we enjoy quite a position within the industry itself. And we have, as you notice from our sales, we have increased our sales and reduced that loss from 1937 to 1938. We expect to continue to increase our sales and cut down on that loss. We have quite an investment in this Province, and naturally we want to get a fair return on that investment. We have run in the past few years at a considerable loss; for instance, on bad debts which occurred around 1929, 1930 and 1931.

Q That is not reflected, of course, in 1937, or the 1938 statements?

A No. We have taken the loss prior to that time.

Q You would show a pretty heavy accumulated loss starting with 1929, wouldn't you?

A Yes.

Q Have you got that figure?

A I have it here for the years 1933 to 1938, and the average was, according to the Alberta statement, around $25,000.00. But, of course, there was the mark-up on products included in there, which is arbitrary, as to whether the mark-up included these costs or not.

Q You speak about that being arbitrary. You hold to the basic fairness of doing it that way. You are only troubled with whether it is just exactly right or not?

A Yes, that is right.

Q And the head office will continue to be there whether you had the business in Alberta or not?

A Oh, yes.

Q Your shareholders are just putting out $25,000.00 a year, you say, to keep you here in the Alberta Division?

A Yes.

Q In other words, your net profit for 1938 would have been $342,000.00, plus $18,000.00?

A Yes.

Q Mr. Cottle suggests if you gave Alberta up your mark-up against the other Provinces would have to be increased. Do you agree with that?

MR. COMMISSIONER LIPSETT: I suppose the volume of your lubricating oil sales might be reduced if you gave up Alberta?

A That is correct. We sold some 90,000 gallons of Enarco motor oils in the Province.

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Q Now, you get the benefit of that in the refinery end, that much extra volume in your refinery?

A Yes, the extra volume in our refinery. And we are a National Canadian company doing business right from the Maritimes to the Rockies. We built up this reputation that we talk about and there are considerable of our customers, for instance, doing business in the Province of Alberta that we do business with in the East and they naturally expect us to look after that business for them. I think any business organization that advertises nationally and is nationally known throughout the Dominion, that they try to get distribution throughout the whole country.

Q MR. FRAWLEY: Surely only if they can do it profitably?

A Yes. But, as I say, we intend to do it profitably in the Province of Alberta. We came in here and made an investment in the Province and we naturally intend to get our money back on that investment.

Q You are a purely jobber operation. You are purely a middleman and you come in between the refinery and the consumer?

A Actually, we are not a jobber as far as our lubricating oils and greases are concerned. We manufacture, not in this Province but in the Dominion, our own products of lubricating oils and greases. We may be looked upon as a jobber as far as gasoline is concerned.

Q You charge your greases and lubes into the Alberta marketing division at a certain price, but that does not make you a jobber as to those products. That is just

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getting them to destination?

A That is right.

Q But don't you think you are really far away from the refinery and that is, perhaps, why you lost money on your lubes and greases, that is that big freight item there?

A That is the item of freight.

Q You are a long way from your refinery for lubes and greases. And the only thing you do, as far as Alberta is concerned on white goods, you are purely a buyer and a seller, and it has not occurred to you that the reason you are losing money is because a jobber operation of your particular size and your particular kind of distribution is not profitable and cannot be made profitable?

A Yes, we expect it to be made profitable.

Q You think you can make this operation profitable?

A Yes. As you notice, the reduction in the loss between the two years, 1937 and 1938. If we continue, if we double, for instance, our sales of lubricating oil our expenses won't increase to the same extent. In other words, we can do a greater volume of business with the same expense that we are incurring at the present time.

Q How about the rest of Western Canada. It would not show any better than that, I suppose, would it?

A I have not these figures here with me. We are getting the benefit of the reduction in freight rates as we move further East, on these products, and I can quite safely say we do better than we do in this Province.

Q Because of the lubes and greases?

A Yes.

Q You would not be a bit better on white goods, would you?

A No.

Q But the lubes and greases carry you in Manitoba and Saskatchewan, but Alberta is a little too far away and that shows red?

A I would say that offhand the freight rate is considerable.

Q MR. COMMISSIONER LIPSETT: Is the price of lubes and greases to the public the same in the three Provinces?

A That is correct.

Q MR. FRAWLEY: Do you think it is profitable to continue jobbing in this Province of white goods. Do you think your new owners have any intention of going into the refining business in the Alberta area?

A Not to my knowledge.

Q You feel you are getting a satisfactory spread from the refinery in this Province or that you should be getting more?

A Well, we feel that the spread is quite fair in comparison with other parts of the Province.

Q Other parts of Canada?

A Yes, I mean other parts of Canada. As far as we are concerned, it is mainly a matter of the gallonage in each Province and the percetnage we are receiving at the present time.

Q There is no hope for you to depart from the Imperial Oil price structure downwards, certainly as long as you are not making a profit?

A No. The uniformity in prices, that is mainly caused by the severe competition, I would say, and the mere sameness of prices would give an assurance of price fairness and free competition.

Q What I mean by this is that the Imperial Oil tell us that they have a distribution system - we know that to be so,

from Coutts to Grande Prairie?

A That is so.

Q And when they fix their tank waggon at 16½ cents in Calgary, which, you understnad, is the price all over Alberta, except in Southern Alberta, from Claresholm north the price is 16½ cents, and the only difference from Calgary is a pure question of freight?

A Yes.

(Page 12,650 follows.)

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Q They say they fixed this 16½ cents because they have the whole map in front of them and they have the thin diluted areas out in the East part and they have the far away places, diluted areas there, as well as the thickly settled places like Calgary and Edmonton?

A Yes.

Q You have not got that, and I wondered why you have selected places with your eyes open, only where you choose, you have presumably 16 good points at which to sell?

A Yes.

Q Where the gallonage should not be all diluted, where you feel you are warranted in going in, so why do you have to, why couldn't you make up your own price list and depart from Imperial at those 16 points?

A We could not hope to obtain a greater price than what they sell their products at.

Q No and----

THE CHAIRMAN: And you do not want to make it less.

Q MR. FRAWLEY: I mean do you think, what I am thinking about whether the jobber, whether the consumer can look to the jobber, you are a typical jobber operation, can the consumer look to you for any reduction in tank waggon price or must we just stay with the Imperial and give the other marketers just a superficial examination?

A I think perhaps Mr. Beamish will be able to answer that question as to any deviation in the tank waggon price but so far as I know there are no deviations.

Q It is not because you have made any arrangements with Mr. Halverson to keep to his tank waggon price?

A No, it is just that we cannot afford to go out and increase our prices or decrease them as well.

THE CHAIRMAN: We will recess now.

(An adjournment of fifteen minutes was here taken).

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Q MR. FRAWLEY: Now Mr. Tew, do you want to make a further statement on the basis upon which the profit and loss analysis by products for 1938, Exhibit G-1, was made out?

A Yes, I do Mr. Frawley. I pointed out to Mr. Cottle there during the intermission and he asked me a question as to how the general expense allocated against lubricating oils and greases was arrived at and that particular expense was arrived at by taking all our expenses from our expense schedule shown there and taking from there any expense which we knew to be against the lubricating oils and greases and that figure was arrived at and found to be 9.08 cents.

Q MR. COTTLE: Then the balance, Mr. Tew, you apportioned to gasoline, kerosene, distillate and fuel oil in proportion of the sales value?

A Of those products.

Q MR. FRAWLEY: There is one more question, Mr. Tew, with reference to the mark-up of $30,395.30, that mark-up includes the head office expense and depreciation on sub-stations?

A Yes.

Q How much of that figure is depreciation on sub-stations?

A The figure for 1938 actually written-off on the head office books against sub-stations amounted to $4,116.79. Possibly a fairer manner in which to allocate the expenses incurred by head office against the Alberta division will be on a basis of sales. I think that is a fair and accurate way of doing it and our Alberta sales bear a percentage of 5.52 against the total company sales and 5.52% of our head office expenses amount to $22,245.72 which you will notice is less than that $30,000.

Q As compared with the $30,395.30?

A Yes.

Q In other words the $30,395.30 you would estimate that the difference, being approximately $8,000, would be profit?

A Yes.

Q MR. FRAWLEY: Now Mr. Tew, there are some other questions I want to ask you and if in any instance they may be better asked of Mr. Beamish or Mr. Ciley you might just say so?

A You refer, Mr. Frawley, to that list of questions which was submitted to us.

Q Yes, recently?

A We covered the first two questions and I think about any other case Mr. Beamish may be more able to answer than I can.

MR. FRAWLEY: That is all then, if there are no further questions.

THE CHAIRMAN: Any questions, have you any questions, Mr. Helman.

MR. HELMAN: No.

THE CHAIRMAN: Mr. Nolan?

MR. NOLAN: No.

MR. FRAWLEY: Thank you.

R. LLOYD BEAMISH, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Beamish, you are the Western Manager or Western Marketing Manager for the Canadian Oil Companies, Limited?

A Western Sales Manager.

Q And the Province of Alberta comes within your jurisdiction?

A So far as sales are concerned, yes.

Q Now the product actually moves, you sell gasoline at 16 points in Alberta at wholesale?

A Yes.

Q And you have dealer accounts which are served from those 16 bulk points?

A That is right.

Q And the product actually moves how to those 16, physically how does it get to the 16 bulk plants?

A It moves to 13 of them in tank cars and the other three in transport.

Q And what are the three where it does not move by railway?

A There is Brooks, Vermilion and Westlock.

Q Well why would you move to Camrose say by car, by tank car, and to Vermilion by tank truck?

A Well that is really in those three points I mentioned, they are new points that we opened this year and we are more or less you might say experimenting with the market in that particular territory and as soon as we feel that the market is there for our products we will certainly

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put in our storage tanks and move it by tank car.

Q One reason then is that you have not got much----

A Sufficient business.

Q Sufficient business and you have no great amount of storage at those three new points?

A With the exception of underground storage that is all.

Q Underground storage?

A Yes.

Q Do you not regard underground storage as being adequate to take care of the needs of a point like Vermilion?

A We do at the present time but we do not think it will be later on, or we hope not anyway.

Q Is it not only a matter of increasing the underground storage, is there any particular virtue in vertical storage as against underground?

Yes there is. They both have their advantages but so far as vertical storage, we have always looked upon vertical storage as being the proper set-up for distributing petroleum products.

Q Whether you move by railway or by highway?

A We usually like to move by railway.

Q By railway?

A Yes.

Q You have not been converted to truck movement at all?

A Partially. We are, as I say, experimenting more or less at the present time.

Q And Brooks, Vermilion and Westlock are now getting their products by truck?

A Yes.

Q All the way from the refinery?

A All the way from our Calgary plant.

Q You see Vermilion, it strikes me that Mr. MacKenzie, the Great West Distributors, has a bulk station at Vermilion?

A Yes.

Q And that is entirely a movement by truck to underground storage at Vermilion, I do not know just what his gallonage is at Vermilion but do you not think that he has adequate facilities there to supply the wholesale trade of the Vermilion district?

A Well I really cannot say, not knowing his gallonage or what his storage is.

Q I mean you can increase, so far as the number of barrels, you can put as many barrels underground as you can above ground?

A That is right.

Q There is no virtue intrinsically in the vertical overhead storage, is there?

A No, other than probably the expense might be a little less in connection with overhead storage or above ground storage.

Q Yes, well there is that and then of course if it is a highway movement then the underground storage seems to be indicated, does it not?

A Yes.

Q And if it is a rail movement the vertical storage seems to be indicated?

A Yes, that is right.

Q THE CHAIRMAN: There is Mr. Plotkins' suggestion of getting away from risks and expense of operating electric pumps by elevated outside storage.

Q MR. FRAWLEY: Yes, that is probably what you mean, when you have vertical storage you do not have to have electric pumps?

A That is what I meant in the cost of operation.

Q That goes for vertical storage as against underground?

A Yes, you can always fill your barrel or your tank truck by gravity by overhead storage.

Q And is the cost of storage, the cost of installation greater when it is underground than when it is overhead?

A Well that of course would depend on the size of your underground storage. I would say if you got up into heavy underground storage the cost would be greater than above ground.

Q And I suppose in answer to my last question, there is no necessary connection between Highway movement and underground storage, you could have a highway movement and vertical storage?

A It is something which has just grown up you might say.

Q It is very interesting and have you been very long in the distribution of petroleum products?

A Well in the West I have been some 10 years.

Q Do you see a trend towards highway movement growing in this Province?

A Well there has been a trend in the past but probably with the new freight rate we hear about, it may effect the picture.

Q The railways may have just suddenly stopped it very effectively?

A That is right.

Q THE CHAIRMAN: What do you say about the deterioration in the oil above ground as compared with

underground storage?

A Well we have not completed an analysis along that line as yet but I would say my personal opinion would be, I would say that deterioration in the product, evaporation and loss would be less in underground storage than above ground storage.

Q Yes, less evaporation?

A So far as the product itself is concerned I believe the product might maintain its quality longer in underground storage than above ground storage because you have not the heat to contend with.

Q MAJOR LIPSETT: Has heat anything to do with the evaporation loss?

A Oh yes, very much so. The heat on a storage tank of course it raises the temperature and evaporizes the light ends of the product and if you have not proper vents, the vapours may go up into the air and add to the loss.

Q MR. FRAWLEY: Now the only movement then you say, it is rail movement to all of your 16 points except these three and when you truck to Vermilion, have you the rates which you pay?

A I have not the rates but we can supply you with them.

Q You have not got that, Mr. Ciley might give them to you and you can put them on the record?

A Not at the moment.

Q THE CHAIRMAN: Why do you say vertical storage in your opinion is the proper set-up?

A The vertical storage?

Q Yes?

A Well if you are running a station we will say where you

need storage for about 10 or 12 thousand gallons you are going to have to put a very very big hole in the ground and a lot of storage tanks to take care of that and that is costly and then there is another angle and that is with your underground storage you always have to pump from the underground storage. With vertical storage, outside of some times you have to pump into it, as a rule you have to pump into it but you do not always have to pump out. You can fill by gravity and there is a considerable saving there because filling a tank your pump runs steady but filling a drum or filling a tank truck your pump runs at intervals and that is more costly than a steady pumping.

Q MR. FRAWLEY: Well I would like to have the rate, you pay them so much per gallon?

A No, I believe it is based on a mileage basis.

Q Per gallon per mile?

A That is right, yes.

Q If you could let us have those figures at the three points, those are the only places, the only wholesale points served by truck?

A Well we have, for example at some of our points where we sell a high grade kerosene, the sales do not warrant the transfer by tank car and it is at very few points but we transfer our high grade light kerosene by truck but that is only on account of meeting the demand. The sales are very low. I think last year some 28,000 gallons in the whole Province.

Q Now in addition to these 16 bulk outlets where gasoline is sold at wholesale, I see from the list which I was

given dated 8th November, 1938 that you have a great many points where your goods are available for sale at wholesale?o

A That is right.

Q How do you explain that?

A Well those are dealers who are, they are selling wholesale and they are serving the farming trade in that particular territory in which they are located.

Q You see I show you the list dated 8th November, 1938 which contains a list of all of your retail dealers, wholesale dealers, company agents and company service stations, that might be a useful list to file and I want to ask you something about it. Is that, I take it that is a true and correct list, that came to me from Mr. Stirling's office?

A Yes, I would think so.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "551").

Q Now just being specific and taking a point----

THE CHAIRMAN: What is this?

A It is a list, Canadian Oil Companies, Limited, a list of retail dealers, wholesale dealers, company agents and company service stations, four items.

Q MR. FRAWLEY: Now let me tell you what appears to me to be something new about this, the Imperial Oil set-up is that they have some 200 or some agencies throughout the Province where commission agents operate and farmers are supplied, consumers generally, principally farmers of course and dealers are supplied through delivery made to those two classes of customers. Now as I take it, those are the only what you might call the wholesale points

in which Imperial goods are available for purchase although they have what they call or what has been called for them "Inland dealers", where a dealer adjacent to the Imperial agency in some general area, would make some wholesale delivery on a purchase and sale basis and get some extra commission for doing it. Now with that as a background, can you tell me what these wholesale dealers are doing, you see here is what is bothering me exactly, I find on the wholesale list C. E. Morfitt, Senior, Strome and I see at Camrose, C. E. Moriftt, Junior. Now will you just tell me what the difference in those two Morfitts is?

A Well the Morfitt at Strome is the father of our agent at Camrose. There is no connection there insofar as our dealings are concerned but Morfitt at Strome is a dealer and he is supplied with his products from Camrose and he in turn sells to the farm trade, that is he sells retail, and sells wholesale at Strome.

Q Oh, now let us see what his set-up is; at Camrose Morfitt Junior is your agent?

A That is right.

Q And he sells just the way the Imperial sells at Camrose, to make it simple?

A Yes.

Q Generally speaking?

A Yes, but we do probably a little more distributing to what you might call inland dealers than the Imperial does.

Q That is perhaps the answer, these people, these wholesale dealers are what Dr. Frey called, to me anyway, "Inland dealers"?

A You could class them as that, yes.

Q Now what is the mechanism between Strome and Camrose, would be get his supplies from Camrose?

A He would, yes.

Q Now what would be the mechanism of that operation so that I will understand it?

A Well he would call on our agent at Camrose, that is Morfitt Junior, and Morfitt Junior would fill the order, whatever it happened to be and would deliver to Strome.

Q Yes?

A In this particular case it happens to be his father but there is no connection.

Q No?

A Then Morfitt Senior at Strome he sells direct to the farm trade.

Q What has he got first, what is his set-up, has he a warehouse?

A I believe he has a warehouse there, I am not just sure on that point but I believe he has a small warehouse for storing drums.

Q So it is delivered from the Camrose bulk agency to Morfitt Senior's warehouse, a stake truck of drums we will say?

A Yes.

Q It is delivered into his warehouse and then the operation so far as Morfitt is concerned, it is finished?

A That is right.

Q And he is charged what, it is a sale of course?

A It is a sale.

Q And what is he charged?

A He is charged regular dealers' prices, that is tank truck

prices less the 1 cent commission.

Q Just the same as though it were a service station in the town of Camrose?

A That is right but----

Q Yes?

A But if he makes a delivery, if he delivers that merchandise out into the country----

Q If who delivers?

A If Morfitt Senior.

Q Before we get to him, I want to understand clearly where Camrose ends. He makes delivery to Morfitt Senior with the warehouse in Strome of a stake truck load of drums and Morfitt Senior pays the Camrose posted tank waggon less 1 cent?

A No, he pays the Strome price less 1 cent.

Q He pays the Imperial's Strome posted tank waggon less 1 cent?

A Whatever the price is in that particular district.

Q Well you have no station at Strome?

A No.

Q No bulk station?

A No.

Q So I can take it I suppose that it is the Imperial's posted tank waggon at Strome?

A That is right because that is the competitive price.

Q And he pays them just as though he were a retailer?

A That is right.

Q And so far as you are concerned he may be selling at retail, he may have some vending facilities there?

A Oh he has, he has pumps there.

Q So he pays that Strome posted tank waggon less 1 cent?

A That is right.

Q And then he sells some of it at the retail price through vending pumps?

A Yes.

Q And he sells some of it, as he receives it in barrels?

A That is right.

Q Now what does Mr. Morfitt Senior sell at, what price does he sell those goods at?

A He sells at the established price in that area.

Q He sells it at the posted tank waggon price at Strome?

A That is right.

Q Now he has paid at Strome less 1 cent, at Strome's posted tank waggon less 1 cent and he sells at Strome's posted tank waggon?

A That is right.

Q So he has 1 cent on what he sells at wholesale and then he has 3 or 4 or 5 cents on what he sells at retail?

A Of course if he delivers into the country----

Q Yes?

A With his own equipment then we pay him what is called the haulage allowance of 1 cent a gallon.

Q Now then he has this stock of barrels and if a farmer comes in and takes it away from his warehouse he will have a profit, a gross profit of 1 cent?

A That is right.

Q But if he delivers it out to the farmer he still has that gross profit, he still has the profit of 1 cent and then you recoup him for his hauling by paying him 1 more cent?

A That is right.

Q Now then on the transaction, let us go back to Morfitt

Junior at Camrose, he has delivered a quantity of barrels or drums to the inland dealer, as he is, at Strome?

A Yes.

Q And what is the money transaction so far as he is concerned?

A His commission on that transaction or on that delivery is a cent and a half.

Q He charges, you have told us, the Strome posted tank waggon?

A That is right.

Q And he, you say he does not bother with the Camrose posted tank waggon price for that transaction?

A No, he sells at the Strome price.

Q But just to keep this clear now, the posted tank waggon of Three- Star at Strome is 19.9 and at Camrose it is 19.6?

A A difference of 3/10 there.

Q Now let us start with the farmer, the farmer pays at Strome to your inland dealer 19.9; he pays that to the inland dealer at Strome?

A Whatever the Strome price is.

Q Let us get it in figures, it is 19.9?

A All right.

Q And the Strome inland dealer gets 1 cent off because he is an A. B. A. dealer?

A That is right.

Q And he gets an extra cent for delivering it?

A If he delivers it.

Q Assuming in this transaction he delivers it?

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16

Q
A Yes.

Q That is 2 cents. Now then your net at this point, you receive 17.9 cents?

A Based on what; you would have to take the average there, Mr. Frawley, you see you are working that based on we are paying him a straight 2 cents but------

Q This is just one transaction?

A I see, all right.

Q One single transaction for the purpose of having it understood correctly?

A All right.

Q At this moment you have received 17.9 cents?

A Yes.

Q After paying the inland dealers' commission and haulage fee?

A That is right.

Q Now then we go back to Camrose and he gets 1½ cents on that, you have told us he gets a gross commission on that transaction of 1½ cents?

A That is right.

Q And that includes, that 1½ cent on that deal, must look after his getting it over to Strome at his own expense?

A Yes, that is haulage and commission.

Q So that the company now has 16.4 cents, that is correct is it not?

A Yes.

Q So as Mr. Cottle says, the total spread of 3½ cents under the Strome posted tank waggon price, that is just the

arithmetic of it, 16.4?

A There is a differential in there I believe of 3 cents, but if you take the 3/10 off that.

Q It seems too bad we had to do all this figuring here on the record but I think it is inevitable.

Q MAJOR LIPSETT: Is it not a figure of 15½ instead of 16½?

MR. FRAWLEY: 19.9, sir.

MAJOR LIPSETT: Oh, 19.9.

MR. FRAWLEY: Yes.

Q MR. FRAWLEY: Now if this were a straight sale by your agent at Camrose to a farmer, well just a few miles from Camrose we will say or it doesn't matter how far away but within reason, 8 or 10 miles?

A Yes.

Q If he made delivery to a farmer at Camrose the farmer would pay 19.6?

A The Camrose price.

Q The Camrose posted tank waggon price and on that your Camrose dealer would get a commission of 2 cents?

A That is right.

Q So the company would have on that transaction 17.6, you would realize 17.6 cents on that transaction?

A I believe that is right.

Q It is just 19.6 less 2 cents?

A That is right.

Q As compared with 16.4 cents on the truck load which went through the inland dealer to the farmer in the Strome area?

A That is right.

Q So that it might be said you were out of pocket 1.2 cents on the transaction by endeavouring to supply the farmer in the Strome district through the inland dealer from the Camrose bulk station?

A Well you are comparing there, you are comparing a farmer transaction out of Camrose with a dealer transaction out of Strome.

Q Yes?

A Now of course the farmer transaction out of Camrose, there may be one or two drums involved, where the dealer transaction at Strome it may be a matter of, and in most cases it is, at least 20 drums, so there is the volume situation w ich has to be taken into consideration.

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Q The reason you are willing to take the 1.2¢ is because of the extra volume you get?

A To a certain extent. It is a matter of average. There are some places where it works the other way.

Q It is perfectly legitimate, I suppose, for you to have a dealer at Strome supplied from Camrose which is about how many miles? It is about 20 or 25 miles. That is not too far away to make a delivery. But suppose you had an ordinary dealer, suppose a garage at Strome wanted to be supplied with Canadian Oil products, he would have to come to Camrose, wouldn't he?

A Yes.

Q Would you be willing to give him a continuous delivery, the ordinary garage dealer?

A If he could take deliveries large enough to satisfy our agent.

Q Well, if he took it in dumps of 200 gallons?

A He would have to take more than 200 gallons to go that far.

Q There is a limit to the number of ordinary dealers, that you can serve the ordinary retail dealers?

A Yes, we think from 40 miles we feel our agent can deliver in that area quite easily. We also have to work it out so that full deliveries can be made.

Q Why do you have these inland dealers? Why do you strive to go so far away from your base at Camrose through the inland dealer and out into the country, perhaps 8 or 10 miles from Strome?

A We must supply the demand in that particular territory for our product. And it is profitable for the agent

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in that territory and our sub-station man or our agent seems to feel it is profitable for them to make deliveries. So that that being the case, there is no reason why we should not.

Q I think we have got the essentials of it there. You are paying extra commissions on that business that goes through the inland dealer?

A Extra commissions over what you might call short deliveries. But please do not leave out the difference between the farmer transaction and the dealer transaction. One may be 900 gallons or more and the other may be 45 gallons or 90 gallons.

Q You would have to analyse that volume of all the various shipments and so on. But if there was nothing but the garageman, the ordinary retail garageman or service station account, the ordinary retail account, in Strome, you would endeavor to serve that from Camrose?

A Yes.

Q 25 miles?

A Yes.

Q Is there any limit? You only have 16 stations. You do not endeavor, to put it broadly, you do not endeavor to serve the whole province?

A You might say your limit is the limit the agent can go for 1½¢ a gallon. He more or less places his own limit on it.

Q Your true agent?

A Yes, that is right.

Q And the territory is limited by the distance he can go for 1½¢?

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A Yes.

Q If you had a bulk agent at Strome, you would do much better, wouldn't you?

A That is hard to say. Yes, I would say the gallonage would be greater because we would be able to distribute to other dealers in that territory?

Q But if there was enough volume there to warrant you putting in a sub-station, you would be much better off, of course?

A I would think so.

Q I mean better off then you are now by endeavoring to reach out into the Strome area by the inland dealer?

A Yes.

Q I think that is clear, but I want it on the record for people to study and criticize if there be any ciriticism. Now I got off onto that subject by asking you about your trucking operations. That is the only trucking operation you do is from those three points of Brooks, Vermilion and Westlock?

A Outside of those points where I said we had small garages, for instance, lighting kerosene, and that is only a small item.

Q Now you market in Southern Alberta at Lethbridge, Blairmore, Stavely, Vulcan, and perhaps you could call Vulcan Southern Alberta. There is no new point opened up though?

A No.

Q There is a reason for that. Up until this year you sold at Blairmore at so many cents under the Imperial Blairmore tank wagon?

A No, we sold at Blairmore.....

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Q I mean you bought?

A Yes.

Q You bought at Blairmore at 6¢ under 18.8¢, which is the Imperial posted tank wagon at Blairmore on 3 Star. But take Lethbridge because that was a discount point. You bought Acto gasoline, for instance, or whatever you call your third structure gasoline, at Lethbridge at 15.2, less 2, less 6, didn't you?

A No, I don't think so.

Q What did the Imperial do with you with regard to third structure gasoline at Lethbridge? May I tell you the story? The posted tank wagon price on third structure at Lethbridge was - I am not concerning myself with the new price - was 15.2 less 2, or an effective price of 13.2. The posted price was 15.2, but the effective price was 15.2 less 2?

A Yes.

Q I mean to the farmer coming into Lethbridge and taking delivery?

A Yes.

Q How about the jobber? What did he do?

A Well, Mr. Tew has probably those figures, and maybe Mr. Tew can answer it.

MR. FRAWLEY: It was 15.2, the posted tank wagon?

MR. TEW: On what was that again?

MR. FRAWLEY: Third structure Acto?

A That would be Red Seal.

Q MR. FRAWLEY: At Lethbridge?

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MR. TEW: 15.2.

MR. FRAWLEY: 15.2 is the posted tank wagon?

MR. TEW: Yes.

MR. FRAWLEY: And your differential was how much under that price, 5¢?

MR. TEW: 5¢ is correct.

Q MR. FRAWLEY: So that you did have to meet the Imperial differential discount out of your jobber's spread at those 20 or whatever number of points they put in this differential discount in Southern Alberta?

A Oh, yes.

Q You had to bear the burden of the differential discount out of your own spread?

A Yes.

Q Which really amounted to, what it really amounted to was that you had a gross spread at Lethbridge of 3¢?

A That is right.

Q And the commission agent, your Lethbridge agent, had on any third structure gaoline , he got a 2¢ commission?

A Lethbridge is a salary point for us.

Q Well, Vaulcan would be the same thing?

A Well, Vulcan is an agency point.

Q Vulcan is an agency point and it is 15.7 is the posted tank wagon price less 5¢ is 10.7 and then you had to look after the differential discount of 1½¢, which would be 3.5 and you would give your agent 2¢ on his sales of third structure gasoline, which would leave you 1½¢ at Vulcan?

A That is right.

Q That is not profitable, of course, is it?

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A Well, no! I would not say it is not profitable, but it is not very profitable, that is a certainty.

Q You are faced with the situation this year a little more concretely in view of the Imperial new proposition to you. You have to buy it f. o. b. refinery price, and you look after the freight yourself?

A Well, I believe that is right.

Q Do you intend to keep on selling Calgary-made gasoline delivered to these various points in Southern Alberta?

A Well, that of course depends on whether we can buy..... We are free to buy any place.

Q That is just the point. But I said do you intend to continue to take gasoline from Calgary to these points in Southern Alberta against that Montana competition and bearing your own freight burden as you will have to now this year?

A I do not see any other solution.

Q I think it would be worth while to take Lethbridge. Let us see what Lethbridge is going to mean to you. Your laid in price or your laid in cost from the Imperial at Lethbridge will be what, Mr. Tew?

MR. TEW: On what grade of gasoline?

MR. FRAWLEY: Third grade.

MR. TEW: 10.2. That is the price prior to last month.

MR. FRAWLEY: No, but I am speaking about the new situation.

MR. TEW: The only copy I have is in there. Lethbridge, our green gas in Lethbridge is 12.6.

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Q Well, let us take the two, take the standard, that is, your green gasoline, and third structure.

Q THE CHAIRMAN: 12.6?

A And Red Seal is 11.8.

Q MR. FRAWLEY: You are giving us the laid in cost at Lethbridge?

MR. TEW: That is correct.

MR. FRAWLEY: How do you make it up, so much at the refinery and so much freight on standard gasoline?

MR. TEW: Well,.....

A Well, the difference between the refinery and the laid down cost represents the freight rate.

MR. FRAWLEY: What are the component parts? What is the break-down of the laid in cost of standard gasoline at Lethbridge. First, what is the figure?

MR. TEW: 12.6.

Q MR. FRAWLEY: Let us take that, 12,6 is the laid in cost at Lethbridge of standard gasoline?

MR. TEW: Correct.

MR. FRAWLEY: Made up of?

MR. TEW: I understand it is made up from the, based on the price at the refinery plus the freight to Lethbridge.

Q MR. FRAWLEY: And you have not got those figures?

MR. TEW: I have not got the split-up of that figure.

Q MR. FRAWLEY: Take the 12.6. Now what is

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the laid in cost of third structure?

MR. TEW: 11.8.

MR. FRAWLEY: Let us compare that with the tank wagon price at Lethbridge, 17.7.

MR. TEW: Correct.

MR. FRAWLEY: And it gives you a spread of 5.1?

MR. TEW: Yes.

MR. FRAWLEY: 14.7 less 1½?

MR. TEW: 13.2.

MR. FRAWLEY. 13.2 which give you 1.4¢ gross margin at Lethbridge on third structure gasoline?

MR. TEW: That is correct.

MR. PLOTKINS: Is that based on the new proposed freight rate?

MR. FRAWLEY: Mr. Tew does not know what freight rate it is based on. He knows his company calculates they will lay in.....

MR. TEW: Does Mr. Plotkins refer to these new freight rates that came in in the month of August?

MR. FRAWLEY: The new freight rates.

MR. TEW: Those would have no bearing on that.

MR.PLOTKINS: This is at the present rate?

MR. TEW: That is correct.

MR. FRAWLEY: His company is not a party to that agreement.

Q You have a gross margin of 1.4¢ on third structure gasoline?

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A Are you sure the figures are right there? It does not sound right to me.

MR. FRAWLEY: Mr. Tew tells us you have a laid in cost of third structure gasoline of 11.8. Let us be sure that is correct?

MR. TEW: That is correct.

THE CHAIRMAN: I am sitting here wondering if this really is a conference on the record, it is saving time and I am wondering if you won't be more accurate and understand it far better if you took the time off right now and prepare a statement. What do you think, Mr. Cottle?

MR. COTTLE: Well, if Mr. Tew has not the component part of his 11.8¢ rate at Lethbridge, the statement cannot be prepared. I think the figures are here. The refinery price is 9.2 and the freight 2.6, making the 11.8. I think that is all there is to it.

MR. FRAWLEY: I simply want to put it to Mr. Beamish as General Sales Manager, if we show him what his gross spreads are, to ask him what he thinks of it. I am finished with the calculation.

Q I think you can take it that is right. If Mr. Tew's laid in cost at Lethbridge is correct, you certainly have 1.4 to work with on third structure gasoline at Lethbridge, because I suppose you have to follow this differential the Imperial is going to give?

A Yes.

Q You have 1.4 at Lethbridge to work on. Are you going to continue to sell third structure gasoline.....?

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A Of course, if that were the only product we were selling there, we certainly would not continue, or I do not imagine we would. But you must take into consideration other products and then we are always hoping that something may happen. We may find some way to operate more economically and cut that down.

Q Perhaps you do not appreciate how far I am going. Do not misunderstand me. I do not want to drive you out of Alberta and into Montana to buy your products, I want to explore it without any question, before the Commission. You can get it elsewhere and I am only asking why you should continue to buy your third structure from the Imperial and buck the downward movement. Because you are pulling against the economic forces by going from Calgary south to Lethbridge?

A There might be a possibility in there in the matter of purchasing, volume may have something to do with it. Where we are only taking 1.4 on what we call the Red Seal gasoline that volume may help out in our purchase of we will say White Rose, No-Knock, or Canadian Ethyl or White Rose Ethyl.

Q From the Imperial?

A Yes, or from anybody else. We are not concerned with the Imperial a bit.

Q At Lethbridge you have a gross spread of 5.1 on your regular gasoline as against the Calgary spread of 6.5¢ on the same product?

A That is right.

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Q And I am merely suggesting for your consideration that it would appear it is uneconomic to continue to battle against the economic forces that are at play in Southern Alberta against you bringing gasoline from Calgary?

A Well, that would appear true, and it is. That is quite so. But of course factors change around so rapidly there from one day to the next, you really do not know how you stand.

Q It is not this. I do not want to put you in the class of the Texas Company. It is not you are losing money anyway and it does not matter how much you lose, and whether you lose it in Southern Alberta or not. It is not the result of a determination to stay in the province anyway because of building up a reputation for your lubricating oils, and that it is worth while to continue to work against these economic forces regardless of whether you are losing a few thousand dollars more or less, because you are losing money anyway. Is that the right way of putting it to you?

A I would say if we thought by marketing in the south country we were going to take loss after loss and there was not a change of ever coming back, or coming back within a reasonable time, then we would be far better off to get out of the south. But the south has been profitable territory for us in the past and it may be in the future.

Q You keep repeating that you may have to get out. But it is not a question of getting out at all. It is finding a new vendor of your third structure, that is all?

A Well, I believe our Purchasing Department made several

surveys in connection with purchasing and have taken everything into consideration. This matter of service is very vital insofar as we are concerned. We do not like to carry big stock although we like to carry an adequate stock. We find in some cases the British American give us excellent service and in other cases the Imperial very good. But I believe they have weighed all angles of this and probably decided the best thing to stay, although we might do a little better in buying some place else - but just to stay purchasing in Canada. And of course our company, we like to feel we are an all-Canadian company. In the past we could have bought in the States much better than in Canada, but we had that reputation of being an all-Canadian company, and we would like to maintain it. We pay for it in a great number of instances.

Q But I am thinking of the consumer. It is very fine for you to operate a business.....?

THE CHAIRMAN: It is only since the 1st of January, 1939, you could have gotten those ideas in a large way?

A No, we have always had those.

Q You were owned by an American refinery up till then?

A But they allowed us to do our own purchasing. They looked after purchasing some of our crude, that is all.

Q MR. FRAWLEY: It only amounts to this, I suppose, Mr. Beamish, that if you bought in Montana - let us assume you bought in Montana and put it into Alberta at a much better price, put it into Stavely or Vulcan

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or the other Southern Alberta point at a much better price, you would not lose so much money and you would perhaps be making a profit on some of these things, but perhaps ultimately there might be a hope for the consumer, because I want to ask you, as I asked Mr. Tew, what has the consumer got to hope for as far as your operation in this province is concerned? Are you going to be any relief to him in what he may, in his uninformed way, regard as a too high price for gasoline?

A You mean, putting us as you might say in the jobber class, which we are as far as gasoline and kerosene is concerned.

Q Yes?

A I really think the farmer of Alberta has got a lot to thank the jobber for. In fact, it is a fact a few years ago, probably you will recall, there was such a thing as a haulage allowance. If delivery was made to the farmer, the farmer had to pay an extra 1¢ a gallon, and the jobber more or less was given credit for the elimination of that haulage allowance, which gave the farmer a better break in the price.

Q What did he do with it? Did he not just put that onto the rest of his purchases?

A No, that came right out of his own pocket, I would say. I know it certainly did as far as we were concerned. The farmer did not have to pay any haulage. For several years we were collecting the haulage and then we dropped it and it was right out of our profit and loss, and added to our expense absolutely.

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Q How many years has it been that the farmer was able to buy at the tank wagon without any extra charge?

A I believe that is probably in the last five years he has been buying it at that.

Q He used to buy at the posted tank wagon price plus a delivery charge?

A Plus a delivery,charge, yes.

Q And did the dealer get the A. B. A. discount at that time?

A The dealer got 1¢ commission and then if the dealer delivered to the farmer he charged that 1¢ haulage and that was his.

Q The dealer only got 1¢ on farm business?

A That is right.

Q Whereas he gets 2¢ now?

A He got 2¢ then on deliveries, but the farmer paid it, whereas now the oil company pays it.

Q But the dealer position, though. What happened to the dealer in those days, the garageman, what did he pay your agent at that time for his gasoline?

A He paid the posted tank wagon price and if he was a dealer-agent he got a commission of 1¢.

Q But if he was not a dealer-agent, if he was just a dealer?

A He paid the straight posted price.

Q That is before the A. B. A. came in there?

A Yes.

Q Mr. Cottle suggests it is just the same now as it was then?

A No, not exactly. A dealer at that time bought at the posted price and there was no such thing as 1¢ off. But if that

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dealer was serving the farm trade, he got the farmer commission of 1¢.

Q MR. COTTLE: What did the agent at that time get by way of commission for delivery to the dealer?

A The same as he gets now.

Q 1¢?

A Yes.

Q What did he get for deliveries to the farmer?

A Just the same as deliveries to the dealer.

Q That is 1¢, and then he charged the farmer 1¢ extra so that in fact the agent at that time got 2¢, namely 1¢ commission from you and 1¢ haulage charge from the farmer?

A No, we paid the agent 2¢ for delivering to the farmer.

Q You paid the agent 2¢?

A And we collected the extra cent from the farmer to cover the haulage. So that meant our net on that delivery was 1¢. Now our net you might say is 2¢, because we do not get that 1¢ from the farmer.

Q At the moment, though, the dealer pays the tank wagon price less 1¢?

A That is right.

Q In those days the farmer paid the tank wagon price plus 1¢

A If it was delivered to him.

Q Yes, if it was delivered to him?

A Yes.

Q So that in those days you netted back from the farmer 1¢ below the posted tank wagon price?

A We netted back from the farmer 1¢ over the posted tank wagon pric

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Q After paying your commission, I mean?

A Oh, after paying the commission, that is right.

Q And you get back 2¢ less than the farmer pays you?

A I do not understand that.

Q After the farmer paid you and after you paid your commission and anything else you had to pay by way of commissions or discounts, you got back from the farmer 2¢ less than the farmer price which was 1¢ less than the posted tank wagon price?

A Yes.

Q And from the dealer you got the posted tank wagon price and he got a commission of 1¢?

A Yes.

Q In other words, you net the same on the sale to the farmer?

A As to the dealer?

Q As to the dealer?

A That is right.

Q Is not that the case exactly today?

A No. The case today is, in the case of the farmer, the net, the expense there is 2¢. Selling to the farmer the commission is 2¢. Selling to the farmer through the dealer agent, the commission is 1½¢, and.....

Q Yes, but we are now speaking of the normal channel of business, being the commission agent. And the commission agent collects the posted tank wagon price from the farmer and gets paid by you 2¢ commission?

A That is right.

Q But selling to a dealer, he collects 1¢ less than the posted tank wagon price and gets paid 1¢ commission?

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A Yes.

Q So that you get as much on your normal sales to dealers as you do on your normal sales to farmers, which was exactly the case before, except for the complication of the inland dealer?

A No. We are comparing before when we sold a product to a farmer we paid 1¢ commission to the sub-station man, and that was all. He collected the haulage which gave him 2¢

Q Yes?

A Now we pay to the sub-station man, when he sells to a farmer today, we pay him 2¢.

Q And he collects nothing?

A He collects nothing. Therefore, we are paying out to the farmer the difference of 1¢ more today than we did back when that haulage allowance was in effect.

Q Quite. But what I am saying is in the final analysis that is the same as it is today when you compare it with the dealer basis. For instance, let us take a posted tank wagon price.....?

A You are speaking of the dealer business, and I am speaking of the straight farmer business from our own warehouses to the farmers. You are talking of the dealer business, and that is different. Let us stick right with the farmer.

Q If you stick with the farmer, all you have done is you have paid the commission agent.....?

A We have paid the commission agent what in the past the farmer has paid, so the farmer is better off by 1¢ a gallon.

Q What I am saying now is that the farmer now pays, even though he only pays the posted tank wagon, because he does not

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get the A. B. A. price, and practically all dealers get the A. B. A. price -

A The farmer did not get the A. B. A. price before.

Q No, because there was no A. B. A. price. But your dealer before if he sold to a farmer.....?

A The farmer is better off by 1¢.

Q I do not want to labor the point. But take a given posted tank wagon price six years ago?

A All right, say 25¢.

Q Say 25¢?

A All right.

Q The farmer at that time would pay 26¢?

A If it was delivered to him.

Q If it was delivered to him, yes?

A That is right.

Q And I take it that the great majority of sales to farmers are delivered to them?

A Yes.

Q He would pay 26¢ and you would get 24¢ after paying the commission?

A Yes.

Q In other words, there was a difference of 2¢ between what the farmer paid and what you got back, net in your pocket?

A Well, he paid 26¢ and we got back 26¢ but we paid 2¢. That is 24¢. That is right.

Q Now, when the dealer paid 25¢, you paid a commission of 1¢?

A Yes.

Q Giving you 24¢?

A Yes.

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Q And today with the posted tank wagon price at 25¢, say the same price, 25¢, the farmer pays 1¢ less than he did before, because he pays only the posted tank wagon price plus nothing?

A That is right.

Q So you get back 23¢?

A That is right.

Q And the dealer pays instead of the 25¢, 24¢?

A 24¢, that is right, 25¢ less 1.

Q The agent gets 1¢ in addition, making it 23¢?

A That is right.

Q So that when you say the farmer is getting 1¢, the dealer is also getting 1¢?

A Yes.

Q So that on your comparison everyone is getting 1¢?

A Every farmer.

Q And every dealer?

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Q And every dealer?

A Yes, to a certain extent.

Q So that the farmer before he paid for his free delivery at your point, the farmer paid for it?

A He paid for the delivery before.

Q He paid for the delivery?

A Whereas now he does not.

Q Whereas now it may be said he still does because he pays a cent more than the dealer?

Q MAJOR LIPSETT: Apparently you only got 23 cents?

A In the past though we paid that dealer a commission of 1 cent which you are not taking into consideration.

Q Oh well now, if you are going to go into that in great detail we will have to see what the tank wagon price was three years ago and what your spread was?

A Let us say, we were working, I may be confused here, I am working on the basis of our man who operates storage tanks and so on, selling to the farmer, as I gather you are tieing in the dealer set up there. Now back, we will say 6 years ago when the tank truck price was 25 cents, if the dealer sold to the farmer he got a discount of 1 cent per gallon; in other words the A. B. A. was still in effect if he was selling to the farmer trade; otherwise he would not make any money.

Q You are speaking of the dealer-agent?

A Yes, the dealer-agent or dealer because the posted price was a straight 25 cents, that is what the dealer was supposed to pay, 25 cents. If that dealer delivers to a farmer he

gets 26 cents but if that farmer comes in to buy from the dealer he gets 25 cents and that is what it costs him so that we had to give him a discount as a dealer-agent of 1 cent in order to enable him to handle that business.

Q MR. FRAWLEY: On his consumer business?

A Yes.

Q But if he is also a retailer?

A If he was a retailer, why we allowed a 1 cent discount on everything he bought because the biggest volume in those days was farmer business anyway.

Q MR. COTTLE: We are at cross purposes. As I take it your point was, the farmer used to pay something but does not now?

A That is right.

Q And my point is the price structure and the commission basis would have been affected and it is still, still is, because when you say the farmer was paying something he is not paying now, surely he was paying something in relation to what someone else was paying, otherwise it does not mean anything?

A The farmer, based on today's set-up as against the former set-up, the farmer is paying 1 cent a gallon less money for his product.

Q You will agree though the farmer used to pay a cent more than the dealer and he still pays a cent more than the dealer does?

A Yes, but I am speaking about this haulage allowance; today we pay the haulage allowance whereas in the past the farmer paid it, so we save the farmer that cent.

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Q MAJOR LIPSETT: Your net back is now 33 cents and it used to be 34?

A Today on farmer sales, that is right.

Q MR. PLOTKINS: Mr. Beamish, there was a cent country differential, what did you do with that in the last 5 years, between the city and the country?

A I cannot recall any cent country differential, Mr. Plotkins.

Q Well it is only June last, on the 21st, that the 1 cent was eliminated; previous to that the country tank wagon, f.o.b. Calgary, was 1 cent more than the city tank wagon?

A You are getting now, into what I would say are special allowances and so on.

Q No, this has nothing to do with special allowances, it was presumably set up to take care of making deliveries?

A A cent a gallon?

Q A cent a gallon. Mr. Frawley can look up his prices.

MR. FRAWLEY: Just let us see.

MR. PLOTKINS: That is at the time the free delivery was instituted practically generally.

A I think you are speaking of one particular territory. You are not speaking of the territory as a whole. For example take Didsbury, take Red Deer, did you have a cent a gallon out in the country there, no, no, I do not think so. You had it here but not there.

MR. PLOTKINS: Mr. Frawley can look it up.

MR. FRAWLEY: Let us be clear about this, Mr. Plotkins.

MR. PLOTKINS: Your Calgary tank wagon in other words or your Didsbury tank wagon was not Calgary plus freight, it was Calgary plus 1 cent plus freight.

R. L. Beamish

Q MR. FRAWLEY: I think I know what Mr. Plotkins is talking about. On the 13th of June in the list which the Imperial published on the 13th of June, 1936, there were two Edmonton prices and two Calgary prices and the Edmonton City was 23½ cents and the Edmonton outside was 24.7; Calgary City was 21 cents, Calgary outside was 22.

MR. PLOTKINS: That is right.

MR. FRAWLEY: That was in 1936 and that continued until the next price list, that continued through 1937 and the last time it was posted was in the price list of the 5th of January, 1938, Calgary, and Edmonton, Edmonton City was 19.5, Edmonton 20.5 outside; Calgary City 17, Calgary outside 18, and then that was abandoned in the list which they published on June 21st, 1938. Now I know why that reduction was made. There was a special reduction made for the two cities of Calgary and Edmonton only as a result of a certain amount of negotiation and pressure you might say, from the Government. The Imperial Oil reduced its price in Calgary a cent and in Edmonton 1.2 cents and it was not to be effective except in the city of Calgary and the city of Edmonton. Now would that affect it, what would be the result of that?

MR. PLOTKINS: It resulted in making the allowance in the country, to take care of deliveries and it happened to coincide with the extension of free deliveries all over the province ----

A Pardon me, you are speaking of two specific cities here; now for example take Didsbury, take Red Deer, take Camrose, did that happen there?

R. L. Beamish

Q MR. PLOTKINS: Yes,

A No, pardon me it did not.

Q Take the Didsbury price, is it not the Calgary posted tank wagon plus the 1 cent differential between Calgary, the city posted tank wagon plus the freight, so that at Didsbury you had an extra cent, what did you do with that cent?

A As far as we were concerned I believe at that time we had a straight margin and we were working on a competitive basis and it didn't matter whether we worked in Edmonton or where it was, the margin was the same.

Q In other words, you were working on a spread, just on a marketing basis and did not get any benefit of that cent if you shipped your goods by tank car?

A Well I do not understand this cent, Mr. Plotkins. I do not know what cent you are talking about.

Q If you bought in Calgary and had the Imperial deliver your gasoline by tank car to your warehouse in Calgary?

A Yes, you purchase on the Calgary tank wagon, that is right.

Q Less the cent?

A Well whatever it happened to be at that time.

Q Yes, but if you purchased a tank car of gasoline for Didsbury it was not that same price plus freight, it was 6 cents below the Didsbury posted tank wagon, was it not?

A That is right.

Q So that the Imperial had that 1 cent difference between the Calgary tank wagon, or your laid down cost at your Calgary warehouse and the laid down cost on the basis of the 6 cent margin at Didsbury?

A Yes, they might have.

Q So there was a cent there and that cent accumulated quite a respectable sum of money and I just wanted to know what was done with it?

A Who did it accumulate to? It didn't accumulate to us.

Q No, that is true.

Q MR. FRAWLEY: I just want to ask a couple of questions, before the 13th of June, 1936, there was one price at Calgary, one price at Edmonton, one price all over the province?

A Yes.

Q On the 13th of June, 1936, I want to make this very clear, the Imperial Oil did one thing only, they took 1.2 cents out of the Edmonton price and cut it by that amount, that is in the four corners of the city of Edmonton and I know that the price just outside of the city limits, 100 yards outside the city limits in Edmonton was still the price, the higher price but in the four corners of the corporate limits of the City of Edmonton they reduced the price 1.2 cents and exactly the same thing in Calgary, within the corporate limits of the City of Calgary, they reduced the price 1 cent; now that is all they did and I just do not quite follow, all other prices continued to be the same, Calgary as it was , plus freight; Calgary as it was plus freight, but in the four corners of the City of Calgary it went down 1 cent, was there anything more than that, Mr. Plotkins.

MR. PLOTKINS: What about the consumer, you are worrying so much about the consumer, why didn't they send that benefit to him in the country?

MR. FRAWLEY: The Calgary consumer got the benefit of it only.

MR. PLOTKINS: Yes but what about the farmer?

MR. FRAWLEY: They just did not see fit to extend it beyond the four corners of the City of Calgary and I want to be clear as to what they did. I thought you understood that at the time.

Q MR. FRAWLEY: Now Mr. Beamish, I have a few questions I want to run through with you and I hope to finish so as not to keep you over if I can. Does your commission agent own his own trucks?

A Yes.

Q And do you supply him assistance in financing his trucks?

A We have not for some considerable time; each case is taken individually but we have not done any financing for a long while.

Q Do you have commercial-consumer accounts?

A Yes.

Q And they buy on an A.B.A. basis?

A That is right.

Q Why do you give them A.B.A, this is the man who is a consumer purchasing for his own consumption?

A That is right.

Q And you put him on the same basis as you do the retailer who is buying and selling gasoline to make a livelihood?

A We merely follow the competition there; evidently that is the practice and we follow suit.

Q You just have to do what the rest do?

A Yes.

Q You also go so far as to sell them or first of all, do you lend them, these consumer accounts, do you lend them the equipment which they require to service themselves?

A Well we sell them equipment. I believe there is one case where there is a pump on loan and that is all.

Q Have you much money outstanding under that heading of unsold or overdue balances on consumer accounts' equipment, perhaps Mr. Tew can answer that?

MR. TEW: Mr. Cottle has the information there.

MR. FRAWLEY: Anyway it appears in this information?

WITNESS: Yes.

MR. TEW: It appears on the balance sheet.

MR. FRAWLEY: All right, I will pass right from it. What do you do about steel barrels, do you loan steel barrels to farmer-consumers or any consumer?

A We loan steel barrels.

Q Does the amount outstanding show under that heading?

A Yes, the number is shown in there.

MR. TEW: It is included in the dollars and cents there, there is approximately $85,000.00 worth.

MR. FRAWLEY: Outstanding?

MR. TEW: Yes.

MR. FRAWLEY: And you have to continue to buy new barrels from time to time to keep up this practice of supplying free barrels?

A We have bought a few barrels this year but it was the first we bought, I believe, in ten years.

Q What are your views about continuing the practice of loaning barrels to the farmer-consumer or any consumer, farmer or anybody else?

A Well it is quite a problem there. Of course, if we did

not have any barrels we probably would be in favor of not loaning them; now that we have the barrels and we can put them to work for us it would probably be quite an expensive proposition to put in storage to look after the farmers if he owned his own barrels.

Q Let me make one thing clear, you spoke about selling to the farmers at posted tank wagon prices, you sell to anybody who wants to buy a barrel at posted tank wagon price?

A Oh, yes.

Q Anybody can go to your bulk station and take a barrel home and siphon it out and serve himself and you would sell at posted tank wagon price?

A Yes.

Q And you would loan a barrel along with the transaction?

A Yes.

Q You loan the barrels to any consumer who desires to purchase at any one of your bulk points in barrel quantities?

A That is right.

Q And you think you will just have to continue to do it as long as the other fellow does it?

A I would think so, yes.

Q Well have you any suggestion to the Commission at all as to what might be done about that if anything?

A Well not at the present time, Mr. Frawley.

Q Can you give me your company's per gallon of tank truck haulage?

A Approximately half a cent.

Q A half a cent per gallon?

A A half a cent per gallon.

R. L. Beamish

Q Now that is for all hauls, long and short?

A That is the average up to our limit of approximately 40 miles.

Q Well, do you only truck, do you only pay haulage charges on hauls of 40 miles?

A No, we sell, some of our agents go over that but we estimate our limit of supply from a sub-station where we have bulk storage at about 40 miles and our own records are kept more or less on that basis and it works out at approximately half a cent a gallon.

Q Half a cent a gallon for 40 miles?

A No, that is for the average, anywhere from a half a mile up to 40 miles.

Q I do not know that that helps us much. You have not any per mile per gallon figure for us?

A Well the average would be half a cent.

Q Now you do haul much further than that. You haul, yourselves you haul from Calgary to Vermilion?

A Well that is done by transport. We do not haul that.

Q By transport, what do you pay for that?

A We are going to get you those figures.

Q As a matter of fact, you supply some of your Saskatchewan points from your Calgary warehouse?

A No.

Q You do not supply any Saskatchewan points?

A No.

Q You do not truck to Prince Alberta, Saskatchewan?

A No.

Q You have a bulk outlet there?

A Not at Prince Alberta, Melfort.

R. L. Beamish

Q Where is it supplied from?

A It is supplied from the Imperial Refinery, Regina, tank car.

Q You do not supply, the longest haul you have is Westlock I would say and Vermilion?

A Well that is not our own equipment.

Q But any haulage at all?

A I would say so, yes.

Q And your own equipment is just purely a matter, do you haul from Calgary with your own equipment?

A We haul from Calgary, yes.

Q To any bulk point within a radius of what?

A I believe we transfer from Calgary to Edmonton, that is some greases occasionally and we might take along a drum of high test kerosene or something like that.

Q That is a stake truck?

A That is a stake truck, not a tank truck.

Q Now, I would like to have some information on your third-party leases; it may be you would have to prepare a special statement on that?

A We have a statement on that, there is a statement ---

Q Now you are offering a statement, I will just describe it to you, Mr. Chairman, it is a statement of premises leased, it reads right across the page does it?

A Yes, leased from, rental basis, and leased to and rental basis.

Q MR. FRAWLEY: It is a statement showing the operations of the properties which the company leases and in turn re-leases to its operators?

A Yes.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "552")

R. L. Beamish

Q Now just, have you got somewhere, any instance, where you lease from the operator and then lease it back to him at something less?

A No, we have not.

Q You have no cases of that kind?

A No cases of that kind.

Q Now in some of these cases you take, clearly at Acme you pay the owner $35.00 and you charge Raessler, your dealer I take it?

A That is right.

Q $35.00?

A That is right.

Q And do you collect the $35.00 from Mr. Raessler?

A Oh, yes.

Q Now in Calgary you rent from J. C. Ritchie a certain property for $50.00 and you rent that to Dulmadge Brothers at $20.00?

A That is right.

Q Why?

A Well when this particular location went in we thought we were quite safe in renting it at $50.00, we thought we would be able to get $50.00 in return; in fact the original lease was drawn up on that basis but it just did not work out that way but our definite set policy is that we will lease a service station or a garage and we want to sub-rent it at exactly the same rental or as near as we can possibly get; that is the definite policy of the company.

Q Now why do you do this, what is the purpose of these third-party leases, and we would call a third-party lease this Acme instance or the Ritchie instance in Calgary and so on?

A Well in a great number of cases we could, through this get

the operator premises much cheaper, at a much cheaper rent than he would have to pay if he was leasing himself.

Q Oh?

A In other words, the landowner might say to us "now if you will lease this for a five-year term the rental is $35.00 a month but if John Jones leases it from year to year it is $40.00 a month" and in this way we have been able to assist some of our dealers.

Q Now that is an advantage to him?

A It is an advantage to the dealer.

Q Now what is the advantage to you?

A The advantage to us, well, of course, we have the outlet.

Q And you have it and the Imperial or the British American have not got it?

A Yes.

Q I mean is it a fair suggestion to say that the principal purpose of these third-party leases is to keep out competitors

A No, I would not say that because there have been cases where the lease has been in such a way that it would not keep out a competitor but we have in a number of cases given our dealer, have been able to get a better deal for our dealer on us leasing because the landlord is sure of his money or he seems to feel he is surer of his money.

Q Are there any instances where you rent, where the dealer, yes, where the dealer cannot afford to pay the proper amount of rent, all the rent you pay to the owner?

A Well, of course, when the deal is originally made so far as we are concerned, if we make a lease for $35.00 a month then we definitely have something lined up so that we can get

$35.00 a month in return but as I say it does not always turn out that way but we certainly would not enter into any deal where we were going to pay say $50.00 and get $25.00 or something like that.

Q Do you own that station on the corner of 16th Street and Jasper Avenue in Edmonton?

A Yes, we do.

Q How much rent do you get from him, that is C. M. Brennagh at Edmonton?

A $35.00 a month.

Q Doesn't it cost you more than $35.00 a month to keep up that property?

A Yes, it does.

Q That is the kind of case I would like to talk to you about for a minute, how much would you have to charge Mr. Brennagh to get back all of the depreciation, taxes, insurance and all of the going charges, the kind of thing the ordinary landlord insists on getting back before he will rent you a house to live in, you would have to get back more than $35.00 a month? perhaps twice that?

A It might work out of course taxes and depreciation.

Q I suppose you charge Mr. Brennagh $35.00 because you think that is about all his business will stand?

A That is it.

Q And if you charged him say $60.00 or whatever it would be, he could not make it go?

A No, he couldn't.

Q And then he would have to fold up?

A That is right.

R. L. Beamish

Q And then there would be one less service station in this admittedly adequately served area. Now what, is there any answer to that plausible suggestion of mine?

A Well, so far as we are concerned we certainly would not go into an area as shown on the map there with an $18,000.00 investment.

Q How do you mean you would not go into it, you are in there?

A We are in there now but I believe when we went in, if I just remember correctly, we only had the British American station, that was the only one there in that particular district at that particular time.

(Go to Page 12,702)

Q Why don't you operate them yourselves?

A Why don't we?

Q Yes?

A Well, it is not our policy as a company to handle tires and accessories, and it is not our policy as a company to do repair work. And it would appear as if it is necessary in a service station in these times to do that, so we simply lease the station and let the man go ahead and do it. He can do what he likes. If he wants to handle accessories, all right, go ahead and do just what you wish. We do not enter into the picture. It is a matter of policy.

Q Is it quite a wrong thing to accuse you, in a very friendly way, to accuse you of bonussing that service station. Is it keeping the props under Mr. Brennan, and that makes it an uneconomic operation?

A I would not say we are bonussing. There are a number of angles to take into consideration there.

Q That is what we want, all the angles?

A We have customers in that particular district, and there is the matter of the advertising angle and so on. We have not very many. We have two stations in Edmonton and one in Lethbridge that we own ourselves. To be frank, we are not very much sold on the service station proposition.

Q There is a lot of confusion in the minds of the people, and that is why we are here to inform the Commission about the things that the public are, perhaps, uninformed about - perhaps it is just a myth that there is too much duplication of service stations, but there is still a very great feeling amongst the American and Canadian

people that that is so?

A Yes.

Q Unnecessary duplication which must inevitably, or that is also the view that it must be costing the consumer money. So I picked this piece up because the companies all seemed to be represented and so that they could talk about it. It might be exaggerated. It might be the Imperial says the worst place in Alberta or, perhaps, the worst place in Canada?

A Yes, I do not doubt that.

Q But it is something to talk about. Now, I ask you the general question, why should companies bonus service stations. Why should not they let them stand on their own feet and fall if they cannot stand. Just fall. If some other company is foolish enough to go in, perhaps they would fall and gradually the thing right itself and there would not be so many stations. I suggest to you you are there because you have resources in Toronto and you are just keeping that man there by not charging him enough rent. You call that a marketing expense, don't you?

A Well, it is a marketing expense.

Q Yes, that is what you call it. It depends on the point of view entirely. You call it, and you think, I suppose, it is a legitimate marketing expense, to keep the gallonage there?

A No, not exactly. When we put that particular station in, I believe the British American station down on the next block was the only other station in this district. But we are in there and we have a $18,000.00 investment and what are you going to do? Throw it overboard? You

might just as well stay there. But to go in a place as thick as that, we would not do it.

Q I am not accusing you of going in like----well, perhaps everything was all right when you went in, but dealing with the living present you are now conducting an operation that might properly be called bonussing a service station operator?

A You could term it that if you wanted.

Q My difficulty in talking to you is that if you did not have any service station expense at all in Alberta, none at all, you could not reflect that in a cheaper price to the consumer. I am afraid you could not?

A With our particular set-up, after all we are simply meeting competition. We are not big enough to do otherwise.

Q That is getting back to my first question, the consumer cannot look to your company for any reduction in the posted tank waggon price?

A Of course, it is not always cost per gallon or the tank truck price. There is the matter of service enters in there and once again I think our company has had a lot to do with cutting down the number of miles the farmer has to go, for example, to get his supplies, and angles along that line, which, although it does not affect the tank truck price, you must take it into consideration.

Q Do you finance dealers, retail dealers. You, of course, have so many of these inland dealers. But do you finance dealers of any kind?

A We have loaned money only on mortgages and only for equipment, and that is all.

Q Have you got very much outstanding on that score at

the moment?

A No, there is very, very little. I haven't the figures, but very little.

Q Do you loan equipment?

A Loan equipment, we have some loan equipment.

Q That is equipment you instal on a dealer's premises without charge?

A Yes.

Q You charge no charge at all?

A That is right.

Q Have you very much. What is the value of all that equipment?

A It is on the inventory.

Q It is on the balance sheet. $28,612.53 at December 21, 1938?

A It might be just as well to have a short explanation there. If some of our dealers who are handling refined goods for the farmer trade in underground storage, we have the underground storage in there and probably a scale for weighing and so on, and you might even class those probably along with the service station.

Q Does the Canadian Oils Company have any plan for annuities, sick benefits or insurance, for its employees?

A There is no definite plan right at the present time. But in the past, since the company first began, the plan there has been to take each case individually and deal with it.

Q Now, here is another question you have probably answered in the discussion I had with you about third party leases. What would be your view of establishing the principle that the company must----or would you care to elaborate at all

upon the suggestion that the company should be nothing more or less than a landlord in connection with its service stations?

A No. I do not think there is anything I can say there.

Q What do you think about fixing the dealer margin? One of the things the Commission must explore is the sufficiency or otherwise of the existing dealer margin. You say you have no service station operation here in Alberta?

A Yes, we have two stations in Edmonton and one in Lethbridge.

Q You lease them?

A We are not operating them ourselves.

Q Well, what do you think about that. One thing that strikes you is that the Calgary margin is 4½ cents and the Edmonton margin is 4 cents, half a cent less, and half a cent runs into a lot of money on that gallonage. What do you think about that. Has your company given any study to it at all as to what would be the proper margin?

A No, we have not.

Q We were told by Mr. Miller of the British American Oil Company that there were great varieties of retail prices in Calgary and Edmonton?

A Yes, I believe that is correct.

Q You think that is so?

A Yes. From what I hear. I have nothing definite on it.

Q He gave us the impression it was just a matter of going around and demanding a little better price than 4½ cents and you would get it?

A I believe that is the case at some locations.

Q You have so very few and you have never personally checked up to see whether your three stations are doing anything

of that sort?

A No, we have not.

Q You are unable to discuss this margin very well?

A Well, our big volume, of course, is the farmer business.

Q There are not any stations that could not get along in your opinion, or are there any stations that could get along if they sold nothing but white products and lubes and greases?

A Well, that is very hard to answer.

Q They all sell tires and batteries and do repair work?

A Yes, and I would say they do that out of necessity.

Q Does your company maintain any credit card service?

A No, we do not, not in Western Canada.

Q Are the commission rates that you pay your bulk plant operators the same in all cases?

A All the same.

Q You have told us about that. Now, what do you think as to whether or not there are sufficient retail outlets in Alberta at the moment to warrant a policy of no further licences?

A Well, there certainly are sufficient Canadian Oil outlets, I can guarantee that.

Q I think we have just got you in under the wire, Mr. Beamish, for which you will be very pleased, I am sure. Has Mr. Ciley anything to add to what Mr. Beamish has said?

MR. TEW: Not that I know of.

MR. FRAWLEY: Well, Mr. Plotkins,

THE CHAIRMAN: What is your local manager's name?

MR. FRAWLEY: Mr. Ciley.

THE CHAIRMAN: What about him?

C.D. Ciley.

MR. FRAWLEY: Mr. Tew and Mr. Beamish tell me he has nothing to say. But I could put him on the stand.

.,.....

COLIN DOUGLAS CILEY, having been duly sworn, testified as follows:

Q There is one detail I am going to ask you about, Mr. Ciley---

THE CHAIRMAN: What is his position?

A Sales Supervisor of Alberta.

Q MR. FRAWLEY: You are Sales Supervisor for the Province of Alberta, and your jurisdiction does not extend into any part of Saskatchewan?

A No.

Q THE CHAIRMAN: You live in Alberta?

A I live in Calgary.

Q MR. FRAWLEY: You succeeded Mr. Sterling?

A That is right.

Q Now, you have effective the 24th of July a new tank waggon price?

A Yes, Sir.

Q You are now selling your standard gasoline in Edmonton for 19.4 cents?

A Yes.

Q Now, that means that the---well, do you know, perhaps as a matter of mere information, if the service stations, that is your own, Mr. Brennan's, and the other two, have they passed that on to the retail purchaser, the benefit of the 1/10 of a cent in the posted tank waggon price, because there has been an advantage of 1/10 of a cent in the posted tank waggon price at Edmonton?

C. D. Ciley.

A I cannot tell you that, Mr. Frawley. We have written to Edmonton. Our Sales Department advised me yesterday afternoon they had written to ask whether or not our dealers were reducing their price. They wrote the salesmen up there.

Q Reducing their retail price?

A That is right. We do not control it. We asked if there was a reduction because we report such prices to our head office.

Q In Calgary there has been no change at all?

A There has been no change.

Q But there have been other changes, and some much more, I mean reductions?

A Yes.

Q Some of them have been more than 1/10 of a cent?

A Well, I would say that there probably will be an adjustment throughout the Province of retail prices.

Q You would think there would be an adjustment?

A Yes, I would think there would be.

Q Just following up that observation, any adjustment in retail prices comes in the most haphazard fashion, does it not?

A Yes. They follow, maybe two weeks later, the reduction in price.

Q And the obvious instance is in Calgary, when the last reduction went in, in Edmonton the dealers reduced the service station prices but the Calgary dealers met and decided they would not and that is all that happened?

A I do not remember that particular case.

Q Do you know how that half a cent increased margin in Calgary

C. D. Ciley.

came about?

A I do not know.

Q I was told it simply was the Edmonton people passed it on but the Calgary dealers did not. But when I say "haphazard" there are just as many margins as there are villages and towns in Alberta?

A Just about.

Q And you, possibly, the suppliers have nothing at all to do with it?

A No, these are retail prices. Until we find one of our dealers selling for what we consider is too much and then we advise him to reduce his price if possible.

Q I did not know you had taken that much interest in it. Have you got a service station supervisor in your organization?

A No, we have not.

Q You do that work yourself?

A Yes.

Q But you do take that much interest in it?

A I am speaking of one particular place in the Crow's Nest Pass.

Q Yes?

A I considered his margin was too high and I tried to have the dealer reduce it this year.

Q We have an Exhibit showing the spreads in Alberta and there was a great variety. I wondered if you took any interest in that and did a little more than just talk to the retailer when you found he was exacting what you thought was too much spread?

A You cannot do it actually because he has reason, that he

C. D. Ciley.

puts up to me that, perhaps, sound quite reasonable as to why he maintains such a spread, seasonable business and one thing and another enters into it.

Q I suppose that you, like most oil men, desire to have the minimum of Government interference in your business?

A If I considered it interference. I do not think the Government greatly interferes in our business. I would not call it interference.

Q But you do not desire any more than there is?

A Naturally.

Q I only speak of what might be the obvious feeling on your part, operating your own business, don't you think there is some danger that these retail spreads are so uncontrolled and you take so little interest in it - and if you should not take a greater interest in it, that there might be a greater reaction on the part of the public that he is being charged too much for gasoline. The consumer is not interested in the tank waggon price that we have been talking about here for months, but in the service station price?

A Certainly.

Q And I was wondering why you people were so unconcerned with these dealer margins?

A The only way I can explain it is that the man who does twice as much business in an adjoining town to another man, or in the same town, is more or less forced by his competition to work under the same margin, regardless of how much profit he makes from that particular line of business. They pretty well control their own margins by that reason. It is considered that because of

C. D. Ciley.

competition again that keeps their prices within a reasonable spread, so that we do not have to interfere very much, any more than to offer the operator advice.

Q Have you a bulk station in Red Deer?

A Yes.

Q Are you aware of the fact that Red Deer had a pretty long spread there for a long time?

A No, I do not recall that.

Q There was nothing brought to your attention?

A No.

Q I would like to know if you can leave any suggestion with the Commission. Must these dealer margins go on uncontrolled Is it your view it should remain just as uncontrolled as it has been or should this Commission try and arrive at a fair margin and recommend that it be set by regulation?

A It would be, perhaps, unfair to do it that way, as unfair as it would be for us to control it on account of the difference in volume, and the difference in cost of operating certain stations.

Q It cannot be the same at some isolated point where a man turned over a few gallons a year as it would be in Calgary and Edmonton?

A No, that would be one of the worst troubles and that is one of the reasons we cannot look after watching the spreads either.

Q It might be difficult and probably would be difficult. But probably something might be worked out on a sliding scale according to the gallonage?

A It might be. It is possible.

Q Now, we have had a pretty complete exposition from Mr. Tew and Mr. Beamish, but is there anything at all respecting

C. D. Ciley.

the more detailed Alberta operation that you have anything to say about, Mr. Ciley?

A No, I really have not, Mr. Frawley. You have pretty well covered everything with them and their answers have been quite complete, I think,

Q THE CHAIRMAN: You have had particular concern with the Province of Alberta?

A That is correct, Sir.

Q Have you any criticism of Government enactments and Government regulations to make?

A I have not.

Q Any suggestions as to what the Government should do that they have not done by way of Governmental regulation or Government enactment that would help the industry?

A Well, I think one thing could be done, and that is this licensing of companies who buy outside the Province, that is the independent companies, I am speaking of, at low prices over there and come in more or less and dump it in our markets. Because, although they may be providing cheaper fuel yet they are making excess profit.

Q You say they should not be licensed?

A I think they should be licensed at a high enough price.

Q To be deterred from doing that?

A Yes.

Q MR. FRAWLEY: A special licence fee imposed upon them?

A That is right. That particular type, well, he is not even a jobber. He is just a hauler.

Q Who are some of these people. You do not need to be shy about mentioning their names, so we will know about whom

we are speaking?

A Well, I really do not actually know them offhand, because I merely see their trucks coming into certain districts. I could go to the trouble and find out. But I know they are Montana haulers who go into the far north even to peddle the goods.

Q Well, now, what is the mechanics of their operation. They purchase it?

A I think they purchase it over there and pay the duty and come in here and sell it.

Q How?

A To farmers and whoever they can. But to farmers principally. They will go to a farm and dump it into the barrels, our barrels or anyone else's.

Q They would not hesitate in filling an empty Canadian barrel?

A No.

Q And you say they sell without any regard to the posted tank waggon prices at the nearest Imperial or Canadian bulk station?

A They do not even adhere to any one price anywhere.

Q They also make deliveries to dealers?

A To a certain amount, yes.

Q But mostly to consumers?

A Mostly to consumers.

Q You say that is not confined to southern Alberta?

A No, we see it in the north . We have had them coming in there for the last year or two.

Q For your information, Mr. Trimble tells us that he cannot manage - and he does a business of one million dollars a year, that he cannot manage to go north of Claresholm. That is what he said. But he has a pretty good business

south of Claresholm. When you say north you mean in the Edmonton district?

A Yes.

Q It is being hauled from Montana into the Edmonton district?

A You can see the Montana licences on their trucks. And they do not come up there for nothing. It is a peddler's licence I have in mind. They are actually peddlers.

Q MR. COMMISSIONER LIPSETT: You mean they are Montana trucks coming in?

A No, I would say they are probably Alberta trucks, but with Montana and Alberta licences. They bear both licences and you cannot tell which they are.

(At this stage the Hearing was adjourned until 9:00 A. M. 2nd August, 1939.)

::::::::::::::::

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta August 2nd, 1939

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VOLUME 113 - August 2nd, 1939

WITNESS:

E X H I B I T S

9.00 A. M. Session
August 2nd, 1939

MR. FRAWLEY: We are prepared to put in the submission of the Union Oil Company this morning and Mr. Vallance represents them.

(S. R. Vallance, Esq., appeared as solicitor for the Union Oil Company of Canada Limited.)

MR. VALLANCE: I will call Mr. Doty.

SHERMAN L. DOTY, having been first duly sworn, examined by Mr. Frawley, said:

Q MR. FRAWLEY: Mr. Doty, you live where?

A In Los Angeles, California.

Q And you are here to represent the Union Oil Company of Canada Limited?

A I am.

Q And Mr. Vallance is acting for you?

A Yes.

MR. FRAWLEY: Mr. Vallance might introduce some evidence of a general character.

Q MR. VALLANCE: Mr. Doty, what is your full name?

A Sherman L. Doty.

Q What is your official position?

A I am production supervisor for the refinery, acting as assistant to the manager of refineries.

Q Of what company?

A The Union Oil Company of California.

Q THE CHAIRMAN: That is production what?

A Supervisor.

Q And --

A Acting as assistant manager of refineries.

Q Assistant Manager of refineries?

A Assistant to Manager of refineries.

Q MR. VALLANCE: That is of the Union Oil Company of California?

A Yes.

Q What is the relation of the Union Oil Company of Canada Limited to the Union Oil Company of California?

A The Union Oil Company of Canada is a wholly owned subsidiary of the Union Oil Company of California.

Q And in your official position as you have given it to us, that is production supervisor and assistant to manager of refineries, you are familiar with the policies of the Union Oil Company of Canada Limited as to marketing and distribution?

A Yes.

Q When was the Canadian company incorporated?

A December 6th, 1921.

Q Under a Dominion Charter?

A Yes.

Q And in what provinces of Canada does it operate?

A British Columbia and Alberta.

Q THE CHAIRMAN: A Dominion Charter you said?

A Yes.

Q MR. VALLANCE: Under a Dominion Charter, sir. What was the purpose of the incorporation of the Canadian Company?

A To extend the market naturally attributable to the source of supply and to meet the requirements of the parent

Company's travelling customers.

Q Is the Union Oil Company of California a subsidiary of any other company?

A No.

Q Who are the stockholders of that company?

A The stock is publicly owned.

Q And who are the stockholders of the Union Oil Company of Canada Limited?

A The Union Oil Company of California.

Q Wholly?

A Wholly, yes.

Q Who has the controlling interest in the Union Oil Company of California?

A No one, no shareholder has the controlling interest.

Q How is the stock held?

A By the public.

Q Held by the public and no on stockholder has any control?

A No.

Q Can you give us the names of the Directors of the Union Oil Company of Canada Limited?

Q THE CHAIRMAN: Is there any property control, anyone own assets, physical assets, any part of them other than the Company itself?

A No.

Q Which it utilizes?

A No. The Directors of the Union Oil Company of Canada, Limited are R. P. Sinclair, Reese H. Taylor, W. L. Stewart, Jr., Paul M. Gray, V. H. Kelly, H. W. Saunders, R. J. Kenmuir.

S. L. Doty

Q MR. FRAWLEY: Where do they live?

A All in Los Angolès except Mr. Kenmuir who lives in Vancouver.

Q And where is the Head Office of the Company?

A In Vancouver.

Q And how many branches have you in Canada?

A There are ---

Q There is your Vancouver Head Office?

A Yes, and there is an office in Alberta.

Q That is the only Branch office?

A That is right.

Q Situated in Calgary?

A That is right.

Q Was the parent company, that is the California Company, manufacturing its own products and producing its own products?

A To a large extent.

Q And operating its own refineries?

A Yes.

Q How many refineries?

A There are three operating refineries in California.

Q When you say to a large extent, what do you mean by that?

A Well, we purchase some products.

Q And what do you manufacture and produce and sell?

A Well we manufacture practically the whole line of petroleum products.

Q Greases?

A Greases.

Q And the Canadian Company distributes and markets those products in Alberta and British Columbia, I will put it this way, does the Canadian Company market and distribute

the products of the parent company in British Columbia and Alberta?

A Not altogether. The parent company manufactures the lubricating oils and greases; it also furnishes, sells crude to another company which refines it and the products are purchased from that company.

Q THE CHAIRMAN: Another company in British Columbia you mean?

A Yes.

Q MR. FRAWLEY: The Imperial Oil Company?

A The Imperial Oil Company.

Q THE CHAIRMAN: It sells crude oil to the Imperial Oil Company in Vancouver?

A That is right.

Q Where they have a refinery?

A Yes.

Q And they manufacture the products that you require and you buy from them?

A That is right.

Q MR. FRAWLEY: Before we leave that, do you also sell to the Imperial Oil Company its own crude requirements?

A We do.

Q For its own refinery purposes?

A We do, yes.

Q MR. VALLANCE: Can you tell us what the total investment of the company in Alberta was as of June 30th, 1938?

A $265,221.69.

Q Have the details of that investment been furnished to the

Commission Counsel?

A Yes.

Q And are you aware of all the material that has been furnished?

THE CHAIRMAN: Are you going to file that?

MR. VALLANCE: Yes, Mr. Frawley is going to do that.

THE CHAIRMAN: Very good.

Q MR. VALLANCE: Are you aware of all that material which has been filed on behalf of the company with the Commission Counsel?

A Yes.

Q With respect to the operations of your Company in Alberta?

A Yes.

MR. VALLANCE: My learned friend, Mr. Frawley, will question you on that material and I will ask you to answer his questions now.

Q MR. FRAWLEY: Mr. Doty, how long have you been in the Province of Alberta, I mean your company, of course?

A The company?

Q Yes.

A I have not the exact date but it was shortly after they were incorporated.

Q After they were incorporated in British Columbia?

A Yes.

Q So it would be shortly, either in the year 1921 or shortly thereafter?

A Yes.

Q And how did the operations commence, what was the nature

of the operation at the beginning?

A The nature of the operation, we sold, we had bulk stations at various points to which gasoline and other products were shipped from British Columbia.

Q Yes, that is what I wanted to know, you began by establishing 5 bulk points in Alberta as I understand, you built those all at one time, I think, did you not?

A Approximately so.

Q At Banff, at Calgary, at Edmonton and in the Peace River country at Grande Prairie and Wembley?

A That is right.

Q And having established those bulk points you brought the supplies from the Province of British Columbia, from Vancouver, from the coast?

A Yes.

Q The crude which you sold to the Imperial and which they refined at their plant at Ioco near Vancouver was made into refined products for your company which you sold in the Province of British Columbia but insofar as we are concerned, which you brought over the mountains into Alberta and distributed here?

A Yes.

Q As a matter of fact I understand that your main distributing point at that time was in the northern part of the province, at Edmonton?

A I believe so. I cannot say positively as to that.

Q And the gasoline came by rail to Edmonton and was then shipped to Calgary and Banff, the other two stations in the southern part of the province and then north to Grande Prairie and Wembley, that is what happened, the

movement was to Edmonton and the movement to Calgary was from Edmonton?

A I cannot answer that.

Q Oh, I see, you do not know about that?

A No, I do not.

MR. FRAWLEY: Is Mr. Venus in town, there may be some things that Mr. Doty would not be expected to know.

MR. VALLANCE: Well Mr. Venus can be made available.

MR. FRAWLEY: I think if we had one of the officials of your local company here it might help.

Q MR. FRAWLEY: Anyway, you did bring the gasoline over the mountains?

A Yes.

Q Do you know what the freight rate was per gallon on that gasoline?

A Oh, I do not know what it was at that time. I have some information at the present time.

Q It was 8.7 cents, Mr. Doty, as I recall looking into it in 1935?

A Well that is probably correct.

Q Of course, that mere, that item alone made, was bound to make the operation latterly a hopeless one, was it not?

A Not necessarily.

Q Well now in the beginning, and this is where I want to be quite fair to you, in the beginning you were able to operate this market, conduct this marketing operation at a profit even at an 8.7 cent freight rate?

A I believe we were, I have not that information.

S. L. Doty

Q In other words, the tank wagons were high enough at that time that you were warranted in coming in even with the preliminary obstacle of 8.7 cents per gallon freight rate?

A I believe that was the case, yes.

Q And then gradually, since 1921, the tank wagon prices have gone down but you have continued until very recently to move the gasoline from the coast?

A That is right.

Q But you are not now doing that?

A We are not now doing that.

Q You have now made an arrangement with the Imperial Oil Company and you take your requirements from the Imperial Oil Refinery at Calgary?

A That is right.

Q Now why did you make the change?

A Because there was an over-production, about that time there was an over-production of crude in Calgary and we wanted to be able to market locally produced products.

Q Yes. Well now, even before the discovery of crude in Turner Valley, in the summer of 1936, the operation had turned from a successful to an unsuccessful one?

A Yes, I think that is true.

Q Then I ask you why you had not made an arrangement with the Imperial Oil to obtain your requirements at Calgary prior to and regardless, prior to and regardless of the discovery of crude at Turner Valley?

A Well, the Imperial were refining crude from across the line.

Q Montana crude?

A Montana crude and they had to buy that crude.

Q Yes?

A The crude which we produced and sold, I will put it this way, the products manufactured from the crude that we sold the Imperial allowed us some producing profit on the crude oil, consequently it was to our advantage to do so.

Q Oh, I see. Now then you produce crude in California?

A Yes.

Q You bring it by cargoes to Vancouver?

A Yes.

Q It is sold, it is actually sold, it is not a custom refining arrangement?

A No, it is a purchase and sale.

Q The Imperial buys if from you and it is their crude, all of it when it comes into the refinery?

A That is right.

Q And at the other door of the refinery you purchase the refined products?

A Right.

Q And you say you found that operation in itself showed you sufficient profits so that you could send the gasoline over the mountains into Alberta against that freight rate and market it without showing an over all loss?

A That is right.

Q Correct, then why couldn't you continue to do that, notwithstanding the fact that the Imperial Oil had changed the operation and stopped bringing in Montana crude and was using Alberta crude, what was any different there,

so far as you were concerned, you see what I want, you see what I mean or did I not make myself clear?

A Well the Imperial had the crude of their own here, they produced crude.

Q Yes?

A And they had a surplus and it is good business to buy products from them when they are buying crude from us.

Q Yes. Now first of all the Imperial does not produce any more, according to the record here, no more than about half, no, it is away under half, it is not 20% of what their refinery runs are, they purchase about 80% in the open market, in the oil field, and produce 20%, so that, does that now make any difference in your answer, we want to have it all as clear as we can, Mr. Doty?

A Well at the time we discontinued shipping it over the mountains the whole idea was that we would be marketing a locally produced product in Alberta.

Q Oh, well then there is that which is a consideration all by itself. You say that had some effect?

A That was the primary reason for initiating that change in operation.

Q Oh, that was the primary reason?

A Yes.

Q Now then you must have been, just prior to your discontinuing the movement over the mountains, you must have been showing a very very considerable operating loss on account of that freight rate of 8 cents?

A We were showing a loss.

Q And it might be suggested it was a reasonable development

that you should get rid of that if you could and you got rid of it very well by purchasing from the refinery?

A That was a secondary consideration at the time.

Q Yes, because you already told me, I understand that is what your answer was, that the profit on the crude in California took care of that loss, so you are quite consistent, that the chief reason was to put a local product on the market locally?

A Yes.

Q And in fairness to you I notice as a marketing policy your stations now have a sign indicating that you are selling Alberta crude?

A Yes.

Q Now you are, is your arrangement with the Imperial an exclusive one, is it evidenced by written contract, the purchase of your supplies from the Imperial in Calgary?

A It is not a contract. It is merely a quotation from them.

Q A quotation from them?

A Yes.

Q A quotation from them?

A Yes.

Q There is not any contract that you have entered into executed by both parties, the one binding itself to the other?

A There is not.

Q And have you got then just what evidence there is, what quotations have been given you and so on, did you bring

any documents of that kind with you?

A I do not know whether I have that or not.

Q You have recently had a change?

A That is right.

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S. L. Doty.

A No, unfortunately I did not bring that.

Q You began to purchase refined products from the Imperial Oil Company without any formal contract and simply got a quotation from them?

A That is right.

Q Is it tied up in any way or dependent upon or any arrangements made interlocking with the Coast arrangements?

A Our contract provides that we have an option to purchase products from the Imperial at Calgary.

Q Your contract. Which contract, when you say "our contract"?

A The contract that we have for the purchase of refined products and the sale of crude.

Q The arrangements at the Coast are evidenced by written contract?

A They are.

Q Have you got the written contract with you?

A I have copies.

Q Well, a copy. If you have a copy which you are sure about we can file that.

A It is at the hotel.

Q Perhaps that could be brought up. Has it been in existence for some time without any change or is it a recently made one?

A It was effedtive January 1, 1938.

Q And at that time that contract then contemplated you might purchase your Alberta requirements from the Imperial at Calgary?

A It gave us the option.

Q It gave you the option to buy at the Imperial refinery if you wished?

A Yes.

S. L. Doty.

Q At any price. Were there any prices named?

A No prices quoted.

Q When did you actually begin to purchase from the Imperial at Calgary?

A I believe it was the lattor part of 1936.

Q Oh, the latter part of 1936. You have been purchasing from them since then?

A Yes.

Q I did not think it was so long ago?

A I am quite certain of it.

Q Then you started to purchase from them before there was any contract giving you the option to?

A Yes.

Q Was there any purpose in including that option after the fact had been accomplished and you were purchasing from them?

A The reason for that is that our contract provides that we will purchase all of our dutiable products from the Imperial in Canada.

Q All of your dutiable products from the Imperial in Canada?

A Yes.

Q In other words, as against any other company you will purchase any of the products you would otherwise have to bring in from the United States?

A That is right.

Q And pay duty on. You have agreed with them as part of this big crude arrangement, you have agreed to purchase all of your , well, virtually, all your refined products?

A All our refined products.

Q Because, practically speaking, they are all dutiable?

A Yes, that is right.

Q You are a company which is - not using "tied" offensively,

but you are in a sense tied to the Imperial with respect to the purchase of refined products in Canada?

A In that respect only.

Q THE CHAIRMAN: Do you supply the Imperial with all its crude requirements in British Columbia, Mr. Doty?

A We do, except possibly one or two cargoes per year, which they bring in for special purposes.

Q You say you are in no wise connected with the Standard Oil of New Jersey?

A No, we are not.

Q Nor any of its subsidiaries?

A No.

Q We have been led to believe that the Standard Oil of New Jersey has subsidiaries in California. That is correct, is it not, Mr. Nolan?

MR. NOLAN: There has been some mention made of the Standard Oil of California as being a subsidiary of the Standard Oil of New Jersey. That is incorrect. It is not on the record in evidence but, perhaps, Mr. Doty would be good enough to tell us.

A As far as I know it is not a subsidiary. But it is one of the Standard group.

Q But there are a number of companies, Mr. Doty, operating in the United States under the name of Standard. The Standard of this or the Standard of that, which are not subsidiaries of or connected with the Standard Oil of New Jersey?

A Possibly.

Q You know that from your experience in the business, don't you?

A Yes.

Q One of these is the Standard Oil of California, which is

unconnected with the Standard of New Jersey.

Q THE CHAIRMAN: Do you know that?

MR. NOLAN: We have no evidence of that here.

A I do not think there is any evidence. It is a recognized fact though that the Standard companies have more or less interchanged. It is one big family, you might say. Strictly speaking, I think they are independent but there is some stock tie-in I am certain.

Q THE CHAIRMAN: Some stock tie-up?

A Yes. I think some of the shareholders own stocks in both companies.

MR. NOLAN: Well, I won't press it. We will have to make it clear to the Commission some way.

THE CHAIRMAN: What I was getting at was it would seem to support this view of Mr. Nolan's that here is the Imperial Oil Company buying all its crude requirements from a company that Mr. Doty tells us is in no wise connected with the Standard Oil Company or its subsidiaries.

MR. NOLAN: And you say "Why don't they buy from the Standard Oil of California".

THE CHAIRMAN: Yes, if it is a partly or wholly owned subsidiary.

MR. NOLAN: There will be witnesses come, as has been discussed with the Commission, and I think these general questions as to inter-company relations could best be discussed here with them, with those people who have firsthand knowledge. Firsthand impressions are not always facts.

THE CHAIRMAN: No.

Q MR. FRAWLEY: It might be useful to pursue that

California-British Columbia arrangement. Has there been any material change in the arrangement in the last four or five years. Has there been any change since the year 1935, in other words? In the basic arrangement between the Union of California and the Imperial?

A Except that prior to 1937 they acted as customer refiner for us. We paid them a fixed price per barrel.

Q You might bring that out. Let me read you a question asked of your company by the Tariff Board in 1935, and the answer your company made, and you might wish to comment on it. The answer is in a letter of the 17th April, 1933, written to the Chairman of the Tariff Board, addressed incidentally to Calgary, because it came through - I was going to say it came through my hands, I have a vague recollection perhaps it did. However, that is not important. It is signed "Paul M. Gregg, Vice-President." The question was

"Q Does Union Oil Company of California sell crude oil
" to the Imperial Oil Company at Ioco, and if so at
" what price?

"A Union Oil Company of California does sell crude oil
" to the Imperial Oil Company, not at Ioco but at
" San Pedro or Port San Luis, California. The price
" for the light crude oil from 24 - 24.9 gravity, if
" supplied at such gravity, is based on the Standard
" Oil Company of California's posted field price for
" Los Angeles Basin crude oil at the time of shipment,
" effective at either San Pedro or Port San Luis,
" provided that if, under the contract Union is not
" able to supply oil from 24 - 24.9 gravity, but does

S. L. Doty.

" supply oil between 23 and 25.9 gravity, the price is
" the average of the Standard Oil Company of California's
" posted field price for like gravity oil for the
" Huntington Beach and Signal Hill Fields, respectively.
" At the date of the contract the price was 69¢ per
" barrel. At the present time the price is 93¢ per
" barrel. The price for heavy crude from 15 - 17.9
" gravity is the Standard Oil Company of California's
" posted field price prevailing in the McKittrick,
" Sunset or Midway Fields, and at the date of the
" contract was 55¢ per barrel. At the present time
" the price is 57¢ per barrel.
" All transportation costs from the
" respective fields to Ioco, including pipe line
" charges, harbor charges and steamer charges, are
" paid by Imperial Oil Company."

Does that arrangement still subsist?

A Essentially. It is in different form.

Q Different form, but essentially the same thing. It is the sale of crude oil?

A It is the sale of crude oil by the Union Oil Company to the Imperial.

Q At the Standard Oil Company of California's posted prices for those various fields?

A That is right.

Q Your company does produce crude oils of various gravities?

A They do.

Q They could supply the Imperial crude oil within what range of gravities?

A From 15 to 38.

S. L. Doty.

Q From 15 to 38?

A Yes.

Q And do you know, as a matter of fact, what gravity of crude is being taken, the normal refinery run at Ioco?

A 23 to 24 is the normal.

Q That, of course, is the kind of thing that loomed very large in the British Columbia investigation, did it not, the gravity of the crude that was purchased by the Imperial from the Union?

A I believe that was brought out.

Q "Q Does Union Oil Company of California purchase its
" gasoline and kerosene requirements from Imperial
" Oil Company at Ioco, and if so at what price?
"A Union Oil Company of California does purchase its
" requirements of gasoline and kerosene for marketing
" in Canada from the Imperial Oil Company at Ioco at
" the following prices: The price for white motor
" gasoline, at the date of the contract and based on
" a well price of 69¢ for light crude oil, was 7.32¢
" per U. S. gallon, Imperial Gallon, 8.78¢. This price,
" however, as well as the price for certain other refined
" products, is subject to fluctuation in accordance with
" fluctuations in the price of crude oil so as to insure
" the Imperial Oil Company a processing charge of 16⅓¢
" per barrel for such crude oil delivered to them.
" The present price for white motor gasoline is 10.96¢
" per Imperial gallon, for "76" (leaded) gasoline is
" 11.60¢ and for Ethyl gasoline is 13.36¢ per Imperial
" gallon. The basic price for kerosene is 9.05¢ per
" U. S. gallon, f. o. b. Ioco, (Imperial gallon 10.86¢),
" to which cost are added shipping and handling costs.
" The above prices are exclusive of sales taxes."

S. L. Doty.

I presume these prices do not obtain at the present time?

A They do not.

Q Does the basis prevail. Is there still a reference to the field price of crude in the price which you pay the Imperial at Ioco for refined products?

A There is a basic price and that price will change subject to the fluctuations, increases or decreases in the price of crude and increases or decreases in the price of natural gasoline or transportation or taxes, or any other factor.

Q But, nevertheless, it is essentially a purchase and sale of gasoline?

A That is right.

Q At the exit door of the refinery?

A That is right.

THE CHAIRMAN: As I understand it, Mr. Vallance is going to file a copy of the contract, which will speak for itself.

Q MR. FRAWLEY: Yes. Are these things we have been talking about mentioned in the contract?

A Yes.

Q MR. COMMISSIONER LIPSETT: Is that price of 16½ cents per barrel for processing, when they were on the customer basis?

A Yes.

Q Was that the whole charge made at that time for processing the crude?

A Yes, that was the whole charge.

Q For the refined products?

A That is per barrel of crude oil.

Q Did you at that time get all the products, including fuel oil and-----

A We did, yes.

S. L. Doty.

Q You just got your barrel of crude oil processed?

A That is right.

Q And you took all----

A We took all the products produced from that barrel of crude.

Q And paid 16½ cents?

A Yes.

THE CHAIRMAN: How much?

MR. COMMISSIONER LIPSETT: 16½ cents a barrel.

THE CHAIRMAN: I thought it was 15 cents he said. 16½?

A That is right.

Q And does that obtain to-day, do you say?

A It is on a different arrangement.

Q You are now buying the products?

A We are buying the products.

Q MR. FRAWLEY: That is why I thought you had departed from the arrangement whereby you had agreed to fix the processing charge for Imperial at 16½ cents a barrel?

A That has been eliminated.

Q Now, the Union Oil Company of California, of course, is the contracting party with the Imperial Oil with regard to the sale of the crude oil?

A That is handled in this manner. The Union Oil Company of California sells to the Union Oil Company of Canada the crude oil and the Union Oil Company of Canada in turn sells it to the Imperial at the refinery in British Columbia.

Q Is there any mark-up between the two Union Companies?

A The Canadian Company gets a commission.

Q How much, so much a barrel?

A So much per barrel.

Q Do you know offhand what it is?

A I do not recall the figures. They are in the contract.

Q Is it in this Imperial contract?

A No, it is not in that contract.

Q Well----

A The price which the Imperial pay for the crude is the posted price plus transportation. The commission that the Canadian company obtains is off the posted field price.

Q It is between the two Union companies?

A That is right.

Q That may be of some interest to us, more than our natural interest in this British Columbia operation, it might be of some immediate interest to us here. It might be important for us to know what that commission is in that transaction. It might be some guide to us in similar transactions here if there be any. Can you give us approximately what that is, or would you be able to tell us?

A I think it is 10 cents per barrel.

Q Now, the products are purchased - the products now are purchased from the Imperial Oil Company by what company?

A By the Union Oil Company of Canada.

Q And that is in British Columbia?

A Yes.

Q And the products are purchased from the Imperial Oil Company at Calgary by the Union Oil Company of Canada?

A That is correct.

Q THE CHAIRMAN: The Imperial buys at tank a waggon plus freight?

MR. FRAWLEY: The Imperial buys from the Union Oil of California at the posted field price plus carriage, plus harbor charges and freight charges.

S. L. Doty.

THE CHAIRMAN: Yes.

Q MR. COMMISSIONER LIPSETT: Was that 16½ cents for the processing, Mr. Doty, was that the ordinary charge, or were there any special circumstances under which that figure was arrived at?

A Well, it was a charge agreed upon by the two companies.

Q As a fair price for refining a barrel of crude?

A Yes.

Q MR. FRAWLEY: At Ioco?

A At Ioco.

Q Of what kind of crude?

A Well, it is average crude.

Q Well, just let me see now; going back to this information----

THE CHAIRMAN: We would like to know exactly what products were made from it, Mr. Frawley.

MR. FRAWLEY: Yes. First of all, we would like to have the gravity of the crude. First let me ask you, how long did that arrangement subsist. When did that discontinue, the agreement upon the amount of the processing charge?

A At the end of 1936.

Q That was in force from about 1921 on?

A From 1926.

Q From 1926 to 1936 there was an agreed processing charge at Ioco of 16½ cents. Always?

A No, it has been adjusted from time to time.

Q Increased or decreased or both?

A Both.

Q As of the date of Mr. Gregg's letter to the Tariff Board of the 17th of April, 1935, it was 16½ cents?

A That is right.

Q Were there any further changes before it was discontinued,

the arrangement I mean, discontinued, or did it continue to be 16½ cents?

A It was later reduced to 14 cents.

Q How long did it continue at 14 cents?

A Until the beginning of 1937.

Q And then it was discontinued altogether?

A Yes, when this contract was written on a different basis.

Q What was the reason for writing the contract on a different basis?

A The reason was----it had to do with Customs regulations on the importation of crude oil.

Q It had to do with Customs regulations with respect to the importation of crude oil?

A Yes.

Q I presume it did not make any difference at all with respect to the price at which you bought?

A No difference in price.

Q Did it continue basically and essentially to be based upon a 14 cent processing charge?

A I think you can say it that way, yes.

Q It was then a change - then the contract, one might say, was rewritten in form rather than in substance?

A That is right.

Q And the processing charge agreed upon between the Imperial Oil and the Union of California still continued to be 14 cents, and the price at which you paid for your products at the refinery at Ioco continued the same under the new contract?

A Approximately so. Essentially so, yes.

Q And the contract was then made because in the opinion of the

two companies, I take it, there was some necessity in view of the existing customs laws and regulations?

A That is right, to get around some technicality.

THE CHAIRMAN: Are you speaking of the current contract?

MR. FRAWLEY: Yes, that would be the current contract.

A That is the current contract.

Q It bears date the 1st of January, 1936?

A Effective the 1st of January, but it was operative prior to that time.

Q THE CHAIRMAN: The current contract when examined in its essentials calls for 14 cents for processing a barrel of crude?

A No, it is not specified there.

MR. FRAWLEY: Mr. Doty says essentially, that is the manner in which the contract prices were worked out.

THE CHAIRMAN: Yes, that is as I understand Mr. Doty.

A The date of the current contract is just prior to January 1st, 1938.

Q MR. FRAWLEY: Oh, 1938?

A Yes.

Q The current contract?

A Yes. 1937 was a different contract, which contained essentially the same provisions as the current contract.

Q Yes. The contract was first rewritten as of January 1st, 1936, and rewritten in its new form?

A Yes, the 1st of January, 1937.

Q Then what was the situation in 1936. You have a date as 1st January, 1936. Was that just an error?

A No, that is an error.

Q It should be 1st January, 1937?

A Yes.

Q The old arrangement continued, the arrangement you have just described to us, and that I have read to you from Mr. Gregg's letter of the 17th of April, 1935, that arrangement existed by virtue of a contract which went through to the end of 1936?

A That is right.

Q And the contract was rewritten for the purposes you have given us and in the fashion you have told us of as effective 1st January, 1937?

A Yes.

Q Then you say there was a further revision and the current contract bears date the 1st of January, 1938?

A That is right.

Q What was the reason for the final revision to the present current form?

A Doubtless to get around some technicalities.

Q It was to get around further technicalities?

A Yes.

Q In connection with importation matters?

A Yes.

Q And Customs matters?

A Yes.

Q THE CHAIRMAN: Let me be clear on this one thing. Your current contract then is the one that was rewritten on the 1st of January, 1938?

A That is right.

Q I just want to be clear that I understand Mr. Doty aright. That essentially the price of 14 cents for processing a

barrel of crude oil still remained?

A Essentially, yes.

Q MR. FRAWLEY: Would it be a great deal of trouble - I hope it would not be, - for you to file copies of each of these rather peculiar contracts with us. I take it you have not got them all here with you?

A I haven't them here, I could get them.

Q Will you be good enough to file with the Commission the one, if it can be brought up from the hotel, perhaps at recess time, and the others would you have sent from Los Angeles?

A I would have to send to Los Angeles for them.

Q Would you be good enough to have copies of these contracts made and sent to Mr. Vallance?

A Let me get exactly what contracts you want.

Q First, I start with the contract which was effective in April, 1935. I do not know how long that had been in existence. Perhaps you can tell us now?

A Approximately since 1932.

Q I do not think we need go back beyond that. The contract from 1932 on.

Q THE CHAIRMAN; That was the one that called for the 16½ cents?

A Yes.

Q And then between 1935 and 1937 you have a contract wherein the processing charge was reduced to 14 cents?

A Yes.

Q And then that was rewritten in 1937 because of Customs requirements?

A Yes.

Q And it seemed a matter of expediency?

A That is right.

Q And again the first of January, 1938, there was a further revision to meet like Customs requirements?

A That is right.

Q MR. FRAWLEY: It would appear to be there would be three contracts, the current one and the two preceding ones?

MR. VALLANCE: The one effective April 1st, 1935, that would be the 1932 contract, and the rewritten one in 1937.

MR. FRAWLEY: Effective the 1st of January, 1937.

MR. VALLANCE: And the one of the 1st of January, 1938.

THE CHAIRMAN: Now current.

MR. FRAWLEY: And if you find you are mistaken with regard to your memory in respect to these dates, if there are any intervening ones if you would be good enough to let us have them?

A Yes.

Q Just pursuing what the Chairman said a moment ago, it is fair to say the revision of the contracts were a matter, insofar as the Customs regulations were concerned, were a matter of expediency?

A That is right.

Q It really was then by virtue of these contracts that you have just told us about that you became purchasers from the Imperial at Calgary rather than from the British American or some other company?

A I would say so.

Q But the prices, but the prices which you pay were purely a matter of quotations I mean?

A Exactly.

Q There was not any question of a certain processing charge at the Calgary refinery being the basis of the contract?

A No.

Q In other words I suppose we would expect to find that you are paying the same price for your gasoline, as a matter of fact we know that, I will just read you from the Imperial's submission which does not just happen to be here at the moment, the Marketing Manager of the Imperial, just to have you confirm these prices for us, and then you can file whatever quotations you have received: Mr. Halverson, the director in charge of marketing for the Imperial Oil states in his Exhibit "316" dealing with jobber prices that your company along with three or four others, namely the Canadian Oils, Union Oil Company, Highway Oil Company, Maple Leaf, North Star and Texas Company, these other companies and yourselves pay for "Q" Gasoline 6 cents, or paid as of the date of this Exhibit some weeks ago, paid 6 cents under posted tank waggon price at destination and for Ethyl gasoline 1½ cents above "Q" coloured; for Standard White Gasoline 5 cents below "Q" coloured; for Motor Gasoline White 5 cents under tank waggon at destination; for Tractor Distillate 5 cents under; for Turner Valley Gasoline 5 cents under; for Water White Kerosene 6 cents under, do you think that is right?

A Generally I think that is correct.

Q You know, quite recently, within a matter of weeks, the Imperial has re-established its prices to jobbers and put them on a different basis?

A That is right.

Q You have been advised of that?

A Yes.

Q The Imperial deals with you direct in Los Angeles in these matters, does it?

A No, they deal directly with Mr. Venus.

Q They deal directly with Mr. Venus?

A Yes in the quotations, the prices, the Alberta prices.

Q I see, so that the dealings are directly between the Toronto offices of the Imperial Oil and Mr. Venus who is your Alberta manager?

A That is right.

Q Then Mr. Venus can perhaps confirm that for us, it is just a matter of bringing up-to-date the prices you are paying the Imperial. I assume you are now paying the Imperial F. O. B. Refinery, that is since the 10th of July you are paying the Imperial at the Refinery 10 cents for Standard Gasoline and the other prices?

A I think that is correct.

Q MAJOR LIPSETT: Mr. Doty, when you are filing these contracts with the Ioco Refinery would you also give us a statement as to what the actual cost was under these different contracts of the refined products or of the crude when refined?

A I think the contracts contain that information.

Q As I gather the prices that you would be paying at Ioco were the posted price of the crude plus a transportation

charge plus any duty?

A That is right.

Q Plus 14 cents or 16½ cents a gallon according to the time?

A Yes.

Q Now can we get translated into figures per gallon all that?

A I think these contracts specifies that. I am quite certain of that.

THE CHAIRMAN: We perhaps can take a slightly longer recess and perhaps Mr. Vallance could get that information, so we will not be guessing about it any longer.

MR. FRAWLEY: Yes. Of course the thing that Mr. Commissioner Lipsett is speaking about now is a thing which exists in terms in the earlier contracts?

A That is right.

Q It now only exists as you say essentially?

A That is right.

Q Following that up would you be good enough, unless these earlier contracts so specify this, it would be important for us to know and I think necessary for us to know, the nature of the crude which was to be processed for 14 cents?

MR. NOLAN: Mr. Frawley, if I may interrupt I would like the witness to tell the Commission the nature of the crude which was being processed and the exact nature of the processing through which that crude was being put.

THE CHAIRMAN: And the various products that emerged.

MR. NOLAN: All right, and the various products that emerged but particularly what work was done

by the refinery on the crude and the amount of crude that the work was being done on for the 14 and the 16½ cents?

MR. FRAWLEY: Oh yes, yes.

THE CHAIRMAN: I think so.

MR. FRAWLEY: We certainly have not come to any thing of that kind yet.

Q MR. FRAWLEY: Let us discuss that for a moment, what was the amount of crude which was delivered to the Imperial Oil Refinery and which was to be processed for 16½ cents and later 14 cents a barrel, within what range?

A It was from 15 to 28.

Q From 15 to 28?

A And the average probably being around 23 or 24.

THE CHAIRMAN: 28 what?

Q MR. FRAWLEY: A. P. I. gravity?

A A. P. I. gravity.

Q A. P. I. gravity and those figures were what again, 14 to 28?

A Yes,

Q With the average being about?

A About 24.

Q And the price to be 16½ and later 14 at any one of those gravities within that range?

A That is right.

Q THE CHAIRMAN: And the nature of the product and what resulted from the barrel of crude?

Q MR. FRAWLEY: Yes, before we leave the gravity of the crude, was the contract restricted that it

was not to be any higher than 28 and lower than 18 did you say?

THE CHAIRMAN: 14.

Q MR. FRAWLEY: 14, at that price of 16½ and later 14?

A There is no restriction.

Q I mean if they had changed their crude order and, well now, let me understand, the crude you are being supplied, the crude you produced was not any lower than 14?

A No.

Q But they could have ordered crude higher than 28?

A Yes.

Q And it would have been still the same processing charge?

A And still the same processing charge.

Q And then the nature of the operation, can you give us some idea of the nature of the operation which was to be paid for at this price of 16½ and later 14?

A That included the paying off the, no, the processing, it included processing the crude to their regular conventional refinery.

Q Yes?

A We did not recognize any cracking facilities.

Q You mean no cracking operation was taken into account?

A That is right.

Q That is the important thing?

MR. NOLAN: I am sure the Commission does not know what that means.

Q MR. FRAWLEY: Putting it very bluntly, you knew the parties had in mind that the processing operation was to be one exclusive of cracking?

A That is right.

Q Was to be a skimming operation?

A A skimming operation.

Q Because the Imperial Oil did not have a cracking unit at that particular plant, which would be a very good reason for it, if you so understand?

A Well they had a cracking plant there.

Q Oh, they had a cracking plant there?

MR. NOLAN: It was because of the nature of the crude?

A The nature of the crude and the quality of products that we required for sale.

Q THE CHAIRMAN: What did you say, Mr. Doty, I am sorry I did not catch that?

A It was the type of crude and the quantities and quality of the products we required for our sales.

Q This was a skimming plant operation pure and simple?

A Yes.

Q No cracking?

A No cracking.

Q MR. FRAWLEY: So that we will be clear about it, whether they had a cracking unit or not, you say they had one and I accept that, but it was not within the contemplation of the parties that there would be any cracking of this crude at all?

A That is the case.

MR. NOLAN: Just there, ask him what treating was done.

Q MR. FRAWLEY: Yes, that is the next thing, then in addition to the skimming operation what further

processing was contemplated to be done under the contract?

A Well gasoline always requires some treatment and subsequent to that it requires to be leaded which by the way is an additional charge.

Q Oh, now then leading of the refined products was to be, the cost of leading was to be added to the 16½ and 14 cents respectively?

A Yes, that is right.

Q Yes, was it all leaded or was any of it marketed by you unleaded?

A No.

Q Now then the treatment, can you tell us any more about the treating, was this a crude that required a treatment to free it of sourness or anything of that sort?

A Not very much, it was quite simple.

Q It was not altogether a swoet crude like the South Texas Crude?

A Not entirely. It probably required some doctoring and in addition some colour.

Q Some colour?

A Yes.

Q Were any of these various refining and treating processes broken down at all in the contract?

A No.

Q Or in any, I presume they were broken down in the conferences which led up to the 16½ and 14 cents but nothing like that appeared in the contract?

A No.

Q Were you a party to the arrangement, Mr. Doty?

A Yes.

Q Are you able to say what portion of the original 16½ and later 14 cents was put down for refining as as against treating?

A No, there was no break-down.

Q It was a bargain between the two companies?

A It was a bargain between the two companies.

Q You were endeavouring I suppose to ascertain, to get a price which would not be much more than, if any more than it would cost you to take your own California made gasoline and put it into the British Columbia market?

A That is right.

Q And in California do you have essentially the same operations, purely a skimming and treating operation to put your, the gasoline you make from your California crude on the market?

A Yes we have.

Q And then the fuel oil which was the other product, I have not asked you that yet, what products, how many products were to be extracted from the crude under this arrangements

A Gasoline, stove oil, deisel fuel, bunker fuel.

Q Gasoline, how many grades of gasoline?

A Well there is usually two grades, one leaded and one unleaded.

Q Yes. Two base stocks, one a leaded treatment and one third structure, is that it?

A Well I do not think they had a third structure. I think it was all the same base stock and they leaded a portion of it.

Q I mean is there any gasoline sold by you under this arrangement of the White Gasoline, a third structure White Gasoline, in British Columbia?

A No, there is no third structure marketed; it is sold as a white gasoline but at the same price as the leaded.

Q And it is the same product except it is not leaded?

A Yes, for a specific purpose.

Q Except for octane number it is about the same gasoline?

A Yes.

Q Now then there were these two gasolines; that really comes down to one gasoline apart from the leading?

A That is right.

Q And stove oil, furnace oil you say?

A Yes.

Q That is the fuel oil for burning in furnaces and there is a certain market for that in British Columbia?

A There is.

Q And deisel fuel?

A Yes.

Q For marine, would that be for a marine fuel?

A It is for burning in certain types of domestic heating equipment and marine deisel fuel.

Q And then the last category is bunker fuel and that is a marine fuel?

A Marine or railway or industrial.

Q Yes. Now so that we might say that the products fell into two classes, gasoline and fuel oil and the fuel oil into these three classes you have told us about?

A Yes.

Q And the fuel oil, does the fuel oil require any treating?

A No.

Q Any of these three fuel oils?

A No.

Q They were obtained purely as a result of the skimming operation?

A Yes.

Q THE CHAIRMAN: Now over and above the gasoline which has added to it tetraethyl lead I suppose?

A Yes.

Q Over and above that have you a premium gasoline, an Ethyl brand ?

A We market an Ethyl brand.

Q MR. FRAWLEY: Yes, but let the Chairman be clear about that, you had one kind of gasoline?

A One base stock.

Q Yes, one base stock and you added so much lead to make it regular gasoline and some more to make it premium gasoline?

A Yes.

Q MAJOR LIPSETT: During this processing and with this operation, you got the ordinary Ethyl Gasoline and the Standard Gasoline as well?

A Yes.

MR. NOLAN: They only got one base stock.

Q MAJOR LIPSETT: One base stock.

MR. NOLAN: One base stock of gasoline.

THE CHAIRMAN: For the 14 cents.

MR. FRAWLEY: And they pay extra for leading.

MR. NOLAN: They lead that, and to the

extent to which it is leaded that gives them the other two grades?

MAJOR LIPSETT: That is the Ethyl and the Standard?

MR. NOLAN: Yes and perhaps Mr. Doty would tell the Commission how much volume was going through, that might be interesting.

Q MR. FRAWLEY: Was there something about minimum volume or maximum volume in the contract?

A The contract specifies the volume.

THE CHAIRMAN: I think we will wait for that contract.

MR. FRAWLEY: Yes, but all these things, we will see when we see it, but I understand all these things we are now discussing are not in the current contract?

A Yes.

THE CHAIRMAN: The witness says they are.

MR. FRAWLEY: Volumes are of course.

THE CHAIRMAN: The one base gasoline, now that gasoline, if there is only the one, must have met the requirements of the Ethyl people in respect to their base gasoline before they would allow the mixing of the Ethyl fluid under the name "Ethyl"?

A That is so.

Q Therefore it must have been what they conceive to be a superior gasoline?

A Yes.

Q They would not allow the name "Ethyl" to be used, that is

correct is it not, Mr. Doty, otherwise?

A That is correct.

THE CHAIRMAN: I think we will pause and get that contract if Mr. Vallance will be good enough to get it.

MR. FRAWLEY: Yes, it is 11 o'clock now and if you will get it as quickly as you can.

(An adjournment of fifteen minutes was here taken).

(Go to number 12,757)

Q MR. FRAWLEY: Mr. Doty, did you obtain a contract or copy of it ?

A I got copies, yes.

Q What have you got then to produce?

A I would rather have furnished copies that have not been all marked up.

Q I will be glad to have you withdraw.....?

A These are working copies.

Q But so that we may get them in now and mark them and it will be quite all right if you will send cleaner copies and we can substitute them for these?

A That is all right.

Q These are correct now, are they not?

A There are two changes that would affect it somewhat, one a reduction in pipe line transportation of 5¢ per barrel of crude, and the other is an addition of 28 gravity crude.

Q To the other crudes specified?

A That is right. Those are the changes.

Q You produced two agreements. They are both dated the 17th of December. Which one comes first?

A They are both dated the same date. This is the sale of crude and this is the purchase of refined products.

MR. FRAWLEY: Mr. Doty produces an agreement dated at Toronto the 17th of December, 1937, between the Union Oil Company of Canada Limited and the Imperial Oil Limited - I said dated at Toronto, but the agreement says made in Toronto, the 17th December, 1937 - covering the sale of crude oil of the Union Company to the Imperial Company.

MR. COMMISSIONER LIPSETT: Covering the sale

of crude oil from?

MR. FRAWLEY: From the Union Company to the Imperial Company. From the Union Oil Company of Canada Limited to the Imperial Oil Limited.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "553")

MR. FRAWLEY: And Mr. Doty also produces an agreement made in Toronto the 17th December, 1937, between the Imperial Oil Limited and the Union Oil Company of Canada, the Imperial Oil Limited being the first named party in the second agreement, covering the purchase of refined petroleum products from the Imperial by the Union Company.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "554")

Q And this is the contract which has an effective date, according to the last part of the..... It has an effective date from the 1st of January, 1938, to continue..... well, I will read that effective clause. "This contract shall be effective from January 1st, 1938, to December 31st, 1938, both dates inclusive, and continue thereafter from year to year until cancelled." It was this contract, Exhibit "553", which covered the sale and purchase of crude and is the current contract. Similarly, Exhibit "554", which provides that"it shall be effective from January 1st, 1938, to December 31st, 1938, both dates inclusive, and continue from year to year after until cancelled." That you can also say covers the purchase and sale of refined products and is the current contract?

A Yes.

Q And just to go over it once more. You will send to

S. L. Doty

Mr. Wallace to be filed the contracts which antedate these contracts back to the year 1920?

A Yes.

Q I wonder if it would not be more profitable - I am sure it would be more profitable to look at these contracts and ask Mr. Doty some questions about them, but in the meantime to proceed with the factual information with respect to the company's operations in the province. Mr. Doty, you are able to tell us something about the marketing operations? You are, first of all, purely marketing in Alberta?

A At the present time, yes.

Q You market a complete line of petroleum products?

A I would not say it is complete, but it meets the demands.

Q A complete line of petroleum products for the motorist?

A That is right.

Q You sell at five points in the province, where you maintain bulk outlets, namely at Banff, Calgary, Edmonton, Grande Prairie and Wembley?

A That is right.

Q Is there any difference in the nature of the operation at these points?

THE CHAIRMAN: Calgary, Edmonton, Banff, Grande Prairie and Wembley?

MR. ROBERTS: Yes.

Q I suggest to you that from the information you have given me, the bulk plants at Edmonton, Calgary and Banff are operated by the company, is that so?

A Yes, that is correct.

MR. FRAWLEY: I think it will help if I file as one Exhibit some of the material which the company has filed and give it pages. I think it would be more easily referred to. Would you glance through that and tell me if that is the information containing descriptions of gallonage and capital investment and prices and so on in this province?

A That is right.

MR. FRAWLEY: I would offer this as one Exhibit, Mr. Chairman.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "555")

Q I think it might be useful if for descriptive purposes I just said what the Exhibit was, for the sake of the record. Exhibit "555" is the financial information and other marketing information supplied by the Union Oil Company of Canada Limited to the Commission, consisting of 14 sheets, being sales and cost of sales of refined oil products. Wholesale and retail outlets. Service station expense, year 1937. Capital employed in Province of Alberta as of June 30th, 1938. Analysis of marketing expense, year 1937. Data re gasoline purchases Province of Alberta 1938, being the cost of the purchases from the Imperial Oil Limited. Property investment, Province of Alberta as of June 20th, 1938. Sales of motor fuels in Imperial gallons, Province of Alberta. List of wholesale and retail outlets, Province of Alberta. Specifications of gasoline marketed in the Province of Alberta. Tank wagon bulk gasoline prices 1938.

THE CHAIRMAN: These are all Alberta?

MR. FRAWLEY: Yes, all are Alberta.

Data re sales of lubricating oils and greases 1938. Wholesale prices automotive oils and greases, Province of Alberta. Income account, Province of Alberta, 1937. Now, have you got a copy of what I have, Mr. Doty, and I think we can go through this pretty quickly?

A I think I have.

Q There is some of it that speaks for itself and that the Commission accountant will have to analyse, but there is some..... Take for instance the third sheet, Service Station Expense, 1937?

A Yes.

Q Can you give us a similar statement covering 1938, if you have not brought it with you?

A I have not brought it with me.

Q This was prepared quite some time ago, but if you would be good enough to send to Mr. Vallance, and Mr. Bemus, your local manager can put it in, I think as far as I am concerned, your service station expense for the year 1938. Mr. Chairman, it might be just as well if I paged these now so that there will be no confusion. Now, what I am asking you to do is this, is to send to Mr. Vallance for submission to the Commission a statement showing service station expense for the year 1938.

(Go to Page 12,762)

Q Similar to the statement which is Page 3 of your Company's Exhibit "555", could that be done reasonably soon?

A Yes.

Q Then Page 4 is capital employed as of June 30th, 1938, which is quite sufficient. Then Page 5 ---

Q MAJOR LIPSETT: Do you want that capital brought up to the present year, it is June 1938.

MR. FRAWLEY: Mr. Cottle suggests, Mr. Commissioner, there would not be enough change to make it worth while.

Q MR. FRAWLEY: Then Page 5 is an analysis of marketing expenses for the year 1937 if that could be, similar information for 1938 be supplied?

A All right.

Q Then Page 6 are the prices at which you buy from the Imperial Oil, at which you bought from the Imperial Oil in 1938 and there I would suggest if you file a statement showing the effect of the changes which were as of 10th July, 1939, because they put you on an f.o.b. refinery basis and you would, I suppose, have to calculate the freight to your 5 bulk points to show your laid-in costs because the statement Page 5 of your Exhibit, at that time you were buying at so many cents under tank wagon and I would like to have the effect of the changes made on the 10th of July of this year; Page 7 is the property investment as of June 30th, 1938, that is all right; Page 8 is your sales of gasoline and other fuels for the, oh, yes, that is for the 6 months ending

Q [illegible] that which [illegible] you
does say "[illegible]" [illegible]
[illegible]

A Yes.

Q [illegible] quality [illegible] gun with [illegible],
which is quite satisfactory. [illegible]

A. [illegible] Do you [illegible]
[illegible] year, [illegible]
[illegible]

MR. MARK Y: [illegible] Gordon [illegible],
Mr. Commissioner, [illegible]
make it worth while.

Q Mr. MARK: [illegible] a lot of [illegible]
of marketing [illegible] that [illegible]
[illegible], similar [illegible]

A All right.

Then [illegible] the [illegible] you [illegible] from [illegible]
Imperial [illegible], [illegible] you [illegible] the [illegible]
in 1958 [illegible] I would suggest to you [illegible]
showing [illegible] of [illegible] change [illegible]
duty, [illegible] that [illegible] you [illegible]
basis [illegible] I mean, but [illegible]
through [illegible] your [illegible] to show your [illegible]
because [illegible] your [illegible]
time you [illegible] and I would [illegible] that [illegible]
the Lift [illegible] this year [illegible]
report [illegible] that [illegible]
right; [illegible]
[illegible] top [illegible]

the 30th of June, 1938, that second column, if that could be shown for the whole of the year 1938, that is June 1938, if we could have that brought up to the end of 1938, for the full year, that is gasoline sales and motor fuel sales, the same thing. Now the next Page 9 shows your wholesale and retail outlets and where they are located as of the 30th of June, 1938. Now you have opened one more station in Alberta this year and probably that statement as of June 30th, 1938, might be brought up to date, is your Red Deer bulk station open yet?

A No. I do not believe so.

Q I do not think it is actually open.

A No, I do not think so.

Q Now Page 10 contains the specifications and if they are, well the only point there, Mr. Doty, I suppose you are in the hands of the Imperial as to that, are those specifications the result of an analsysis made by your own company in Los Angeles because ----

THE CHAIRMAN: Is it the Imperial run?

Q Or is it information supplied to you by the Imperial?

A I think it is a combination of both.

Q You see the idea is now, it is very brief, it is the octane rating, the A. P. I. and the boiling point and the end point. We had some discussion about that some time ago ----

Q THE CHAIRMAN: Is your Union gasoline for example, as distributed in Alberta, different in any respect from the Imperial?

A No.

Q It is the same thing?

A It is the same thing practically.

Q They do not make a special run for you?

A No, they do not make a special run.

Q MR. FRAWLEY: The best evidence as to that, Mr. Chairman, is what Mr. Halverson told us, or was it Mr. McGrath, they say that the gasoline we make for the jobber is exactly the same as our own two brands, with the exception of the adding of the solvent oils to their gasolines and they then produce them as patented by reason of that but other than the solvent oil yours is the same as theirs?

THE CHAIRMAN: Is that correct, Mr. Doty?

A I think that is correct.

Q MR. FRAWLEY: Of course, let us just stop there, the name that your company markets regular gasoline under is "76"?

A 76.

Q Is the 76 which you sell in Vancouver the same gasoline as the 76 which you sell in Calgary?

A As near as two gasolines can be made they are.

Q Of course the Imperial is making it for you in both places?

A That is right.

Q Let us go back one step further, is the gasoline which Imperial makes for you the same gasoline that you are selling to customers in California, which you sell yourself?

A Practically so, yes.

Q Do you endeavor to get them to duplicate the gasoline which you make yourself in California?

A Not necessarily.

Q Because of different conditions?

A Because of different conditions.

Q But is it by and large as good a gasoline as you can make in California, for the use of your Canadian customers?

A I would say so.

Q And as between the Vancouver gasoline and the Calgary gasoline you are satisfied they are very comparable?

A I am satisfied they are very comparable.

Q Now then Page 11 are the tank wagon prices in the province at your various points, and show the changes which you made during the year ----

THE CHAIRMAN: He says "76", is that a trade name or does it imply 76 Octane?

A It is a trade name.

Q MR. FRAWLEY: It has something to do with 1776, has it not, or 76 octane, I often wondered which it was?

A No, it does not apply, it has no reference to octane.

Q Page 11 of your Exhibit might perhaps be brought up to date, Mr. Doty, by showing the changes, it would be very interesting to show the changes which you will have to make in your tank wagon prices at your five or six points in the province as a result of the latest change, that is the one made on the 10th of July, 1939, and any other changes that were made because there really were, yes, there was a change on the 22nd of June, 1939, and there was

a change on the 8th of September, 1938 and it might be perhaps, if you would have your marketing department, Mr. Venus can do that very readily, bring that Page 11 of this Exhibit up to date for us. Now Page 12 ---

THE CHAIRMAN: Just a minute, is that possible to do that?

A It is possible to do that, yes.

Q MR. FRAWLEY: And it is possible without bringing you back?

A Yes.

Q These matters Mr. Venus, your marketing manager here, can file as well as you can?

A That is right.

Q And Page 12 is data with respect to the supplying of lubricating oils and greases in the province.

Now you import, as you show in this statement, this Page, "all lubricating oils and greases are imported from the United States at Port Moody, British Columbia, and shipped by railroad to Alberta"?

A That is correct.

Q Why do you find it, has the Union Oil Company of Canada seriously considered purchasing its lubricating oils and greases in Canada?

A They have, they have investigated that very thoroughly.

Q By virtue of your relationship with the Imperial Oil in this particular way as shown by those contracts, would it advantage you at all to purchase lubricating oils and greases made by the Imperial Oil at its plant in Sarnia or would it not?

A The freight rate is against that.

Q Particularly as you are marketing only in the far western provinces of Canada?

A Yes.

Q And it would have to come by rail from Sarnia, Ontario?

A Yes.

Q You bring it by boat, I suppose?

A Yes.

Q And even by paying the duty you are doing better than if you tried to bring it by rail from Sarnia?

A Yes, that is right.

Q MAJOR LIPSETT: Did you bring that to the notice of the railway companies at all, Mr. Doty?

A I do not think we have but it is a recognized fact that the transportation is very, very high.

Q MR. FRAWLEY: Do you sell here, does the Union Oil Company of California sell the lubes and greases to the Union of Canada at a certain laid-in cost, I presume invoices pass?

A They are invoiced at a certain price which is approximately wholesale price or not lower than the wholesale price at point of shipment.

Q That is to avoid any difficulty with regard to the anti-dumping duty?

A That is right.

Q So that the Union Oil Company of Canada becomes a purchaser in wholesale quantities at the shipping point in California?

A That is right.

Q And it might be said then that they are purely importers of American lubes and greases although it happens to be from its parent company?

A That is right.

Q And they pay the same price as any, well now first, the Union Oil Company of Canada is purely a marketer?

A Yes.

Q You are you might almost say a jobber?

A Yes.

Q Do they pay the same price at the shipping point in California that any comparable jobber would pay buying from you down there?

A That is right.

Q And you do have other jobbers in California in lubes and greases?

A Not to any great extent.

Q This is your biggest customer?

A Yes.

Q Other than what you sell yourselves direct?

A Yes.

Q There is nothing there, there is no mark-up to the parent company and when I say "mark-up" I mean you just simply pay the fair wholesale price?

A That is right.

Q At point of shipment?

A Yes.

Q Which, of course, includes your cost and a profit and so on?

Q MAJOR LIPSETT: Are these all manufactured by the parent company?

A Yes.

Q MR. FRAWLEY: Is pure Penn, a purchased product?

A It is a purchased oil but it is re-blended at the refinery.

Q You simply buy the Penn Bright stocks?

A Yes.

Q THE CHAIRMAN: That expression has been used before, what is meant exactly by "bright stocks"?

A Oh it is the heavy portion of the oil they use in blending and correcting the viscosity.

Q MR. FRAWLEY: Is there any particular reason why they call it bright stock?

A I do not know, it is an old Spanish custom so far as I know.

Q So that all these lubes and greases that the Canadian Company buys are manufactured in California by the parent Company?

A That is right.

Q And then the spread on those lubes and greases, well the following pages, Page 13, the following page, Page 13, indicates the prices at which they are sold in Alberta and how are those prices arrived at; in other words, how is the mark-up arrived at, that is the spread between the price paid at the shipping point in California and the price to the consumer in Alberta, the wholesale price?

A I do not know how that is calculated. I presume it is competitive conditions.

Q You think it rather likely that your company ascertains what the Imperial sells comparable lubes and greases at and follows it?

A I would not necessarily say the Imperial, necessarily it would not be Imperial but other companies.

Q I say the Imperial because they are the big marketers, the Imperial or the British American or any other person of any size?

A Yes.

Q Perhaps I might ask you this, do you show, does your operation in Alberta in oils and greases show a profit?

A I have not got that segregation.

Q I do not want, I do not want to unduly trouble you Mr. Doty, but we have as a special branch of this Commission, the Commission must make some report on lubes and greases separately and it would be interesting to know if the company, your particular operation, particularly as the gasoline operation has not been successful, whether the oils and greases' operation has been the same or different?

A I do not know whether it is possible to furnish an accurate statement due to the trouble and difficulty in distributing the marketing expenses.

Q Yes, I realize it is pretty difficult?

A I doubt if a statement would reflect the true condition.

Q Mr. Cottle says he thinks he has enough there to be able to draw the conclusions that he feels he has to draw. Now then the last statement, Page 14, contains your income account for 1937, well to bring it in line, look at Page 14, the last item, bring it in line with the other statements which I have asked you for for 1938, this had better be made for 1938 also?

THE CHAIRMAN: Well now, when will we be able to get all this, whether the statements are up to

where you want them or not; I am just thinking of Mr. Cottle being able to work on what you are asking for, if we do not get them for weeks.

MR. FRAWLEY: Well Mr. Cottle has to work on all of this stuff.

THE CHAIRMAN: When do you suppose you can get the information now being asked for, Mr. Doty?

A Oh, it would be quite promptly, I would say within, not over two weeks, most of it is available and some of it can be got in a week.

Q MR. FRAWLEY: And it can be sent by air mail and probably be delivered within two weeks.

A Yes.

Q Now these negotiations in 1937, you show a loss on operation of $57,421.05, when you had a gross profit on sales of $122,038.49 but that after you deduct marketing expenses, general expenses, taxes, and provision for depreciation, you had a deduction from your gross profits, a deduction to make of $179,459.54 which gave you a loss on operations of $57,421.05?

A That is right.

Q Did you improve the position in 1938?

A Not very much. It shows a net loss of $62,949.04.

Q A net loss, well the net loss of 57,000 was increased to 62,000?

A Yes.

Q The gallonage was increased, your gallonage in 1937 was 2,000,594-1/10th gallons and your gallonage in 1938 was 2,243,594 gallons. How do you account for the loss

being increased by $6,000.00 when your gallonage went up a little bit?

A Well $6,000.00 does not make, most any small thing could affect that. I would say they are practically the same.

Q You would say they are about the same?

A Approximately, yes.

Q What do you think, what views do you offer to the Commission as to why you have this very, very considerable sized loss in these marketing expenses, I suppose it is the size of the marketing expense items that had the effect, now which one of them, can you call attention to any particular one, well I would just like before you leave it to have any views, Mr. Doty, you have to offer to the Commission, does it look hopeless to you or is it an operation which you are continuing for some special reason, I mean what do you think about it?

A Well, we have the investment and we have the clientele that we serve and also the travelling clientele, both local and travelling and we see no reason why we should not continue as long as we have hopes that some day in the future, that the prices and competition will be such that we will be able to show some profit.

Q I want to show you something, now this is the original of a letter, at least it is a signed original, it is either the original or a signed copy of a letter written by Paul M. Gregg for the Union Oil Company of California on the 17th day of April, 1935 to the Hon. George H. Sedgewick, Chairman of the Federal Tariff Board, and this is

S. L. Doty

what he said in the third last paragraph:

"Union Oil Company of Canada, Ltd., which markets "to the public in British Columbia and Alberta "has, since it began operations in the Province of "Alberta, been consistently losing money, as dis- "closed by its income tax returns to that province. "In the year 1934 the gross profit on operations "using cost of sales, determined as above, was "$57,785.47. After deducting direct operating "expenses of $88,992.88 and before deducting "depreciation and administrative charges, the "loss was $31,207.41. Depreciation amounted "to $20,311.38, taxes $5,834.57, advertising "$6,248.83, leaving a loss of $63,602.19 and "after charging management salaries and adminis- "trative expenses of $24,346.41, the net loss was "$87,948.60.

" In 1933 the net loss, on "the same basis, was $75,731.75 and in 1932 was $31,325.87."

Now that is 1932, 1933 and 1934. Then there is a break in our information, 1935 and 1936 and then in 1937 we have $57,000 and you have told us in 1938 $62,000 you lost, the net loss.

(Go to number 12,774)

S. L. Doty

Q All right, you say that you have in mind the fact that you have some tourist customers. Now, I have wondered personally about that. Do you mean you want the people to become acquainted with Union products so that when they go travelling down the Pacific Coast in the summer time they will continue to purchase Union products? Is that one thing?

A That is one.

Q That is a really important thing to an international marketer?

A It is.

Q THE CHAIRMAN: I suppose it could be put the other way that those who use Union in California if they should come here, they might get using another brand if their own was not available to them.

MR. FRAWLEY: Yes, it works both ways. The people from California who come here, and they do come in large numbers, and are Union customers in California, you want to serve them here?

A Yes.

THE CHAIRMAN: They might use 3 Star without noticing any difference in the performance.

MR. FRAWLEY: Yes, and that would be a calamity.

Q To really serve the people very well, would not you have to give them even better distribution in Alberta and perhaps lose more money to serve them? You see, you are in Banff, I mean wholesale in Banff, and in Calgary and then in Edmonton, and Wembley and Grande Prairie.

S. L. Doty

I do not suppose any of these tourists get that far and I was going to ask you about that. That is a peculiar situation there. But passing from that for the moment, you do feel it is a proper item in the whole Union picture to carry on at a loss of $50,000.00 or $60,000.00 per annum in Alberta and it is a sort of advertising expense to keep the prestige of your product before the public?

A Yes, that is right.

Q I do not want to take you out of your company at all, and perhaps you would not care to answer my question at all. But you have been in the petroleum business a long time, I suppose?

A 24 years.

Q And the Texas Company market in your territory in California, of course?

A Yes, of course.

Q And very extensively through the Pacific North-west?

A Yes.

Q They operate in this province, too, as you know, and they operate at a loss, I may say. Would you think that that was one of the reasons why they were continuing to operate at a loss in Alberta, the same reasons you have indicated?

A I would not want to hazard a guess.

Q You stay out of their back-yard, eh? Well, is it the principle thing - you say that is one of them and I would like naturally to explore them as much as I can - the needs of the local consumers are not particularly uppermost in your minds, are they? You would not surely just for the good of the people of Alberta want to take $50,000.00 or $60,000.00

S. L. Doty

of your shareholders' money and spend it marketing in Alberta, would you, particularly when it is just Imperial gasoline? Is there anything there to have your views on?

A Well, our local customers usually get out of the country once in a while and we hope to be able to serve them.

Q The credit card helps there, does it not?

A Yes.

Q You have a credit card system?

A Yes.

Q You issue credit cards to your Alberta customers which they naturally use when they leave the province?

A Yes.

Q Other marketers are quite free with their credit cards, too. You just have to simply depend on them being pleased with Union products and Union service when they go abroad?

A That is right.

Q Then I take it from your answer, and I think you are very frank, Mr. Doty, that you continue this operation to benefit the operations in the United States?

A You could put it that way if you want to.

Q Because it is either your United States customers coming up here and you have in mind their interests and maintaining your good service to them and also you will have the gallonage in California with the Alberta people who go down there?

A Yes.

Q But you are thinking primarily of your California intersts when you are maintaining your operations in Alberta?

S. L. Doty

A That is right.

Q What would be your view if you could break down the lubes and greases, and if you were marketing them even at a profit it would not be anything like enough profit to take up the loss on your gasoline operation?

A Of course it would not because the total shows a loss.

Q Of course it is all in there.

THE CHAIRMAN: Mr. Frawley, are we to have a comparison between the operations at Ioco and the operations in Calgary, in the refining of crude oil?

MR. FRAWLEY: Can we have, or have we had as yet? We have not had as yet.

THE CHAIRMAN: No, I say will we have?

MR. FRAWLEY: There is one obvious thing that occurs to me, apart from the expense involved, that Doctor Brown could go there.....

THE CHAIRMAN: We are told the contract presumably was a profitable one for the Imperial or they would not enter into it. But they do refining of a type of crude oil of a character at so much a barrel, and all of the products going to these people. Now is someone going to speak as to whether that is a proper comparison or whether for any one of many reasons it is not?

MR. FRAWLEY: I can say this, at once, Mr. Chairman, a moment ago I spoke of Doctor Brown going to Ioco. Now Doctor Brown won't need to go to Ioco at all. I can submit to Doctor Brown the material which Mr. Doty has given us, and Doctor Brown can, even in discussion with

S. L. Doty

Imperial refining officials in Toronto, find out as much about the Iocc plant as if he saw it himself. I am sure he can, and when he comes back here he can tell us about it quite easily.

THE CHAIRMAN: It would be unfair to judge the refining operation here by Iocc unless they are in all respects comparable.

MR. FRAWLEY: Or after making allowances for the parts that are not comparable?

THE CHAIRMAN: Quite so.

MR. FRAWLEY: Yes. It may be that this will be very valuable to us. But it will take somebody like Doctor Brown to put it together.

THE CHAIRMAN: That is all I am asking.

MR. FRAWLEY: I certainly will do that. I think that can be done without Doctor Brown going away from Toronto.

Q MR. NOLAN: Perhaps this Witness can help us out. If I might just ask him a question. You are familiar with the refining process that takes place here in East Calgary and also with the process that takes place at Ioco. Perhaps I may ask you, Mr. Doty, if I may, is there any comparison in your opinion between the process through which the crude is put at Ioco and the process that goes on down here in East Calgary in the Imperial Oil refinery?

A No, there is no comparison. Due to different types of crude and different character of the product.

S.L.Doty

Q To make it easy for us, Mr. Doty, what is the difference in the type of crudes that go through, in simple language that we may understand?

A The Ioco crude is a fairly low gasoline-bearing crude, and the gasoline is sweet in most cases, not requiring even doctor treatment.

Q Is it fair to say you extract from the crude the gasoline that is in it through your Ioco process?

A That is right, and that is all.

Q What happens here at the refinery at East Calgary of the Imperial Oil Company, or do you know?

A I know generally, but I have not actual knowledge myself. I know generally from general knowledge of refining.

Q Yes?

A That is a type of crude which has light gravity and very high in sulphur. It is sulphur of a type that is hard to remove. In addition to that there is no market for the fuel oil and the fuel oil is naturally reduced into gasoline.

Q In other words, you have to refine out of the crude that product which your market calls for?

A To meet the marketing demands.

Q Which meets the marketing demand whereas at Ioco what you get by this simple skimming process does meet the market demand?

A It meets the market demand because the crude deliveries to Ioco are scheduled to meet that.

Q And the difference in gravity is the difference as between

S. L. Doty

your gravity of 23, did you say?

A About 23 or 24.

Q And ours here is.....?

A In the neighborhood of 35 or 40.

MR. NOLAN: What is the gravity here?

MR. COTTLE: 43.

MR. NOLAN: 43 is the pipe-line run now?

A That is the average. It would be very much more expensive refining this type of crude because of the larger gasoline content it requires.

Q And I suppose equally there would be greater depreciation of the plant that would be required to put it through these additional processes that it goes through here?

A There would be additional expense required and a greater investment, and the depreciation due to the particular type of crude is very high.

Q What is the percentage in yield of White products from the crude that is put through at Ioco, do you know?

A Averaging with 24 gravity crude about 19% gasoline.

Q MR. COTTLE: You refine two types of crude at Ioco. What yield do you get from the heavier crude?

A The heavy crude is simply fuel oil.

Q Simply fuel oil?

A Yes.

Q No gasoline content at all?

A No. It is natural crude and it is brought in and processed.

Q You pay 14¢, or at least you used to pay 14¢ per barrel of fuel oil even if no gasoline was extracted?

S. L. Doty

A Yes, there was no limitation on it.

Q MR. FRAWLEY: All that was, was breaking up this crude into various fuel oil products?

A Yes.

Q MR. COTTLE: What would be the over-all yield of White products from all of the crude. Would it be indicated by Page 1 of Exhibit "554"?

A It depends on the relationship of the heavy and the light crude.

Q And that in turn I suppose depends upon the market requirements?

A On the demand.

Q And I understand your market requirements are as set out in this Exhibit "554". Would the figures given on the first page indicate the yield you would expect from the crude you ship in?

A There would be the refined products there. Of course, the gasoline is blended with natural gasoline.

Q The gasoline yield shown on this page includes the natural gasoline?

A Correct.

Q The figure of 240,000 barrels on Page 1 in Exhibit "554" would be finished gasoline yield including 25% casing head?

A That is right.

Q MR. FRAWLEY: Following up what the Chairman said, I am sorry that it may be that there are some things you should be asked about, and is it going to inconvenience you to be here tomorrow morning?

A No, that is all right.

Q It is very good of you. You have come a long way and the operation in this province may have warranted you in not going to all that expense and trouble, but I am personally very much obliged to you for coming from Los Angeles. I have some further questions I want to ask you on marketing. I asked you to give me a statement showing in a particular form, showing the number of office buildings and the number of stations and the number of barrels, and so on and the sales of products in 1938 and the seasonal trend of White products. Have you got that in memorandum form?

A I have statements.

Q I will file a statement now, Mr. Chairman, which I presume we may as well give separate numbersto because there may be confusion to add them to the others. This is a statement.....?

THE CHAIRMAN: Exhibit "556" is what, then?

MR. FRAWLEY: It is a statement showing the number of office buildings, main stations, bulk agencies, warehouse agencies, company-owned service stations, etc., and marketing information of that kind, of the Union Oil Company.

(DOCUMENT IN QUESTION IS NOW MARKED EXBHITI "556")

MR. FRAWLEY: The next statement is a statement showing sales of principal products marketed direct in Alberta for the year 1938.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "557")

MR. FRAWLEY: The third question under that heading, this shows the seasonal trend of White products in 1938?

A Yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "558")

Q Now, Mr. Doty, you have commission agencies only at two points, I take it, Wembley and Grande Prairie?

A I think that is right.

Q Can you tell us whether Red Deer will be operated on a salary basis like Calgary, Edmonton and Banff?

A No, I cannot tell.

Q You cannot say as to that?

A No.

THE CHAIRMAN: Calgary, Edmonton and Banff?

MR. FRAWLEY: Are operated on a salary basis.

THE CHAIRMAN: The service station man, or men -

MR. FRAWLEY: Bulk stations. Wholesale stations

THE CHAIRMAN: Are on salary?

MR. FRAWLEY: Yes, on salary as the Imperial Oil Limited at Calgary, Edmonton, Wetaskiwin and so on. So that at the moment, I take it from the Exhibits you have already filed, you only have commission agents in the Grande Prairie district?

A I believe that is correct.

Q Do you assist the agent, these commission agents in financing trucks and that sort of thing?

A We do not.

Q You have consumer accounts?

A Yes.

S. L. Doty

Q By the way, you have nothing to say further to that question of financing commission agents, have you?

A No.

Q The memo you have there is a memo prepared to answer these questions?

A Yes.

Q Do you lend equipment to commercial consumer accounts?

A We don't.

Q And on what basis are prices established to commercial consumers?

A The price to the commercial consumer is 1¢ off the tank wagon price.

Q In other words, it is the same price that your company's bulk agents sell to their ordinary retailer?

A That is right.

Q Have you any views to submit to the Commission on the question of steel barrels, which as we understand from the evidence, are supplied free to farmer customers, or to any consumer?

A Yes. It is a matter of considerable concern due to losses occurring due to the failure to return a large number of barrels each year and also general wear and tear. It is felt that some regulation to prohibit companies from filling barrels other than their own might result in a more economic handling of the situation.

Q Of course it does not go the distance of the elimination of the free barrel to the consumer. What are your views about that?

A It is a competitive situation entirely.

Q You feel as long as others do it, you have to follow?

A Yes.

Q What is the custom in California in respect to that? Do you sell gasoline in drums to consumers there?

A In some cases. I think generally the situation is the same as it is here.

Q The farmer buys, in California, his gasoline for use on his farm in drum quantities, I take it?

A That is right.

Q At the same price, at the posted tank wagon price?

A I think, but I am not sure of that.

Q But your understanding is that he gets the barrel free when he buys his gasoline?

A Thst is right.

Q The agricultural gallonage does not predominate of course there, does it?

A No, but it is a big factor.

Q Have you a big investment in steel barrels in California?

A We have.

Q You find you have the same experience with it of non-returns, and so on?

A That is right. We have not yet found a solution.

Q Has there been any attempt there - it may be of interest to have your views - any attempt in California for the companies to eliminate the practice and compel the consumer to buy barrels?

A There have been attempts to charge consumers for barrels, but other companies did not do it, and so you have to meet competition.

Q It is competition again?

A Yes.

Q There is always somebody big enough that is willing to continue the practice and others have to follow?

A That is right.

Q The next question is, what is the estimated company's per gallon of tank truck haulage, that Doctor Frey wanted to have for his calculations, and I understand you have not got that?

A We have not got that.

Q It is now being gathered, and Mr. Bemus may come in tomorrow if it is available and submit this evidence in that respect. You have third-party leases, I suppose. You have instances where you lease from the owner..... This is getting into retail distribution now?

A Yes.

Q Where you lease from the owner of the property and re-lease to your operator?

A Yes.

Q What is the general practice there? Do you as a general practice endeavor to get from your operator, your lessee, all the rent which you pay out, if you are on a rental basis yourself, or if you are not, the total of your taxes and insurance and other expense?

A Well, we attempt to make the best deal we can, but it is usually not always possible to get as much rent for the station as we have to pay.

Q Have you prepared any statement showing in every case..... Well, that appears to be covered, yes, on Page 3 of your

Exhibit "555". Well, that is 1937?

A Yes, that is 1937.

Q You have not got the 1938 figures but you will send us those?

A Yes, we can let you have that.

Q You are going to send those. So that we will have to discuss 1937, just to discuss the principle, we will use the 1937 figures. There is a station in Edmonton, this one here on 115th Street and Jasper Avenue. There you had an operating expense in 1937 of $86.46 and maintenance expense of $691.33, and you received $660.00 rent. So that you had a difference between our outlay and your revenue of $117.79, which you call net expense. Why do you call that an expense? Why don't you insist on charging that man on the corner of 115th and Jasper in Edmonton enough money to get back at least all of your maintenance and operating expense. There is nothing here about taxes and insurance. It may be in there, of course. Is it in there, taxes, insurance, and things of that kind?

A Everything is in there, yes. I might say this that third party leases are used for one definite purpose and that is to establish definite outlets in order that the public may become familiar with their location.

Q Yes?

A The advantage to the dealer is that he is able to build up his service to the consumer, involving, in most cases, considerable equipment which he might not otherwise be justified in doing on short-term rental arrangement. It is obviously not for the purpose of keeping competitors out.

Q What is the advantage to the company. You have just stated that already?

A I have stated that.

Q It is for the purpose of establishing at well-known and advertised locations your brand names and your other distinguishing marks which surround your marketing operations?

A That is right.

Q In other words, you say he is doing something for you as a refiner and supplier of products - or as a supplier in this province - doing something for you for which you should be paying something, and when you have to pay out with respect to that operation of the man on Jasper and 115th Street in Edmonton, when you have to pay out $117.00 you regard that as money well spent?

A That is right.

Q To keep the Union sign there and to keep your product being sold there, you call that then a marketing expense?

A That is right.

Q You do not regard yourself as a land-lord such as you would regard yourself towards me if you were renting me a house to live in?

A Not at all.

Q Now then what is your practice in California in that respect?

A There are so many different practices, I cannot begin to enumerate them all. But the same condition obtains.

Q There is a willingness to absorb a certain portion of the expense of operating a station which it would not be felt the operator should absorb himself?

S. L. Doty

A That is generally the case, yes.

Q As far as you are concerned, it is not the proper way to look at it and to suggest that you are maintaining an unnecessary outlet which would, without your assistance, have to disintegrate and fold up?

A That is right.

Q Which would follow of course and perhaps you regard that as legitimate on your part to keep it from folding up?

A Absolutely.

Q Because your products are going through there?

A Yes.

Q You have made up your mind to operate in the province and that is a legitimate expense you must undertake?

A That is right.

(Go to Page 12,790)

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Q Now Dr. Frey has another question, it is No. 10, which is related to that, what would be the idea of the company in the matter of absorbing all rents and taxes of the service station operator that is making the company nothing but landlord?

A Well the company does absorb the taxes but inasmuch as all stations, at least the company is in effect landlord to the lessee or operator paying the rental for the service station.

Q You are legally a landlord but you are not charging the economic rent in some instances?

A In some cases you could call it that, if you like.

Q It is the same question I asked you a moment ago in another form, what are your views with regard to that being the policy, that any oil company, that every oil company must insist and demand from its lessees every cent that it, the oil company, in turn haspaid out?

A I do not think that would be good business for the simple reason that at certain points the rental of properties may be very high but on the other hand they have an advertising value far in excess of the difference between what they pay and what the lessee pays.

Q Yes. Now perhaps the thought behind these questions is this, there is, I presume you will admit, in the mind of the uninformed public a feeling that there are too many distribution facilities, there are too many facilities for sale by wholesale and retail of petroleum products, that is a very wide spread idea, is it not; now I suppose you could entertain us and very interestingly too, for quite a time on that subject but briefly do you not

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think that this is a means of perpetuating duplication which would not otherwise be there if the retailer must, were left to operate that kind of business just as the retailer in the candy store is left to operate his business and if he cannot pay his rent he just goes into bankruptcy, now what are your views about that?

A Again that is a subject of competition there; if one company does not pay that rent why some other company will find that ideal location and it will go in there.

Q Yes. Now that follows. If for instance you started a new policy in Alberta, this policy I am in a sense suggesting to you and you went to the man on Jasper Avenue and all the other people who are not paying their way, you might say, and you said "You have to pay us what we pay out" and he said "I cannot. My gallonage is not sufficient", you say the only result of that would be that would close up his agency but in a few days the Texas Company or the Imperial Oil or the British American would be in there?

A Yes, or another corner, run a station on another corner.

Q Or this very one, I am assuming that you cannot get anybody, either the present man or any other person to pay you enough rent to repay all of your expenses, what you say is that some other company would refuse to follow this idealistic theory of yours and they would continue the practice that is so-wide spread now, so you say you have to do what you know the other fellow would do right after?

A Yes, to meet competition.

Q I suppose of course then that one immediately thinks that

there be some intervention in the question of licensing; would not a policy of restricting the licensing meet the situation and prevent the consequences that you have just indicated, where you might endeavour to collect the full economic rent and if that were the policy underlying the licensing system, that might help, what do you think about that?

A I think the petroleum business is in the same class as any other competitive business, that free competition should be allowed.

Q Now I am glad to have your views about that, what are your views about there being any licensing policy at all?

A I do not believe they should be.

Q There should not be any?

A I do not think there should.

Q You do not think that the excessive duplication, if that be an added cost to the consumer, you do not think that that can be cured by Governmental regulation of licensing?

A I do not think so.

Q How can that be cured, how is the thing going to work itself out, assuming now that there are more than enough wholesale and retail stations in Alberta to adequately serve the customer, how is any evil which is caused thereby going to be cured?

A That is what we would like to know. We have that condition in California and we have had it for years.

Q And is it costing the consumer something there, do you think?

A Oh I do not think necessary because there is so much com-

petition at the price, it beats the price down.

Q Well what is it doing then, if it is too much, and when you say too much, that indicates it is an abnormal condition and one which should not be there, can we go that far?

A Well you might put it that way but when you find a lot of service stations, maybe four or five in one block and those on street corners, with a station on each of the corners, why you naturally will say "There are too many".

Q You would naturally say there are too many, but if it is not doing any harm to the consumer, perhaps it is doing harm to somebody else and what my question is why should there be too many, they may be an eye-sore perhaps or they may be a thing of beauty, but I am only thinking now of the price of the products to the consumer, I am thinking of that only for the moment, do you think any relief can be looked for?

A Oh I think that this duplication would have some effect but the consumer would have, on the other hand, he has benefitted more than he has hurt by having the competitive condition.

Q Where are the benefits coming from the competitive condition, assuming he is hurt to some extent in the price?

A I think he is benefitting more than he has hurt.

Q Then there is no net hurt but where is the benefit to offset the hurt?

A Well it keeps prices low and gives greater revenue to the state.

Q Well now the state only gets more revenue by an increased over-all consumption?

A That is right, it keeps the prices down and there is more gasoline bought.

Q Oh, it keeps the prices down and that puts the gallonage up?

A Yes.

Q And there is more revenue in turn?

A Yes.

Q You think that is a consequence, you think that if there were fewer stations and greater volume per unit, that there would not be just as much over-all gallonage?

A I do not think so.

Q You think there is more gallonage because of the greater number of stations?

A I think so.

Q Well then, Mr. Doty, there does not seem to be any harm in it at all; wherein then are there too many, from what angle, you ventured a view a moment ago that there were too many?

A Well on the face of it it looks like too many because they cannot keep busy. My idea of a service station is to have one car, when one car drives out to have another one drive in.

Q And if there were fewer, take that picture there, if there was just one in those five lots there would be much more gallonage in that one station than in how many there are?

A How much time would the customers lose in getting their cars served.

Q Those are the benefits you are speaking of?

A Yes.

Q Quicker service and that sort of thing?

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A Yes.

Q Yes, in this modern day I suppose you get impatient people who want to have their cars filled immediately?.

A I have seen them drive up to a station and they could not get waited on and they drove out and go somewhere else.

Q And they would not have far to go?

A Within the same block. If there happened to be a car standing in there they pulled out again and go across the street.

Q Is there not some evil in that; in the over-all picture somebody has to pay for that, for giving that impatient fellow a place to go and get his tank filled in a few minutes, has not somebody got to pay for that, perhaps you and I who are not so impatient?

A Is the petroleum industry any different from anything else.

Q Well now-----

A The restaurant business, the grocery business, the meat business, is it not the same thing.

Q You say this is really, perhaps what we are talking about is the desire to rationalize the industry?

A That is it.

Q And you see no more justification for even an attempt to reulonalize the petroleum industry than the confectionery business?

A If you are going to do one why not do them all.

Q And have a wholly rationalized economy?

A That is right.

Q So we start off with the fact that there might be some

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apparent hurt to the consumer in this duplication but you say when it is all thought through that the advantages outweigh the hurt?

A I believe so.

Q But among those advantages you cite the instance of the ability to be served without absolutely any waiting at all?

A That is right.

Q Then that takes us right back to whether or not that is catering to that sort of what shall I say, caprice perhaps, and that ultimately reacts to the disadvantage of the normal or average person if there is such a person alive; well you, I take it, in any event suggest that if there is to be any, if, assuming now if the gasoline consumer in Alberta is paying too much, that he must find his relief through the free play of competitive forces?

A That is it.

Q And that if the Standard Oil Company of California wants to come in here, as we hear talk of from time to time, let them come in?

A That is right.

Q If by that they dilute the Imperial gallonage, the Imperial being the price maker, well that is just a consequence which has to be suffered?

A The same as any other compeition?

Q In other words it has to go by competition?

A Yes.

Q There cannot be any question as you say of going to the Imperial and saying "Now we are going to shut out the Standard Oil Company of California 'just as an instance,'

that is going to save your gallonage for you which would otherwise be diluted. Now for that you must make some, must reflect something in the tank waggon price", you say that is foolishness, that that is not the practical thing to do at all, you have to let the Standard come in, the Shell come in, the Union increase its operations?

A Sure.

Q Whatever might happen and if, as it does, we know that at one time the Imperial had all the gallonage and it has been to some extent a decline curve for the Imperial,- made up by this normal increase, by the increase in consumption and so on,-but generally it has been a decline curve, but you say that must be continued and that no one should be shut out; the costs go up by dilution, does it not?

A It has been the experience of the oil industry that they are reducing their cost all the time by invention and adoption of new processes.

Q New methods of marketing?

A Well I am talking about, you are talking about the prices and I am talking about where they can afford to save.

Q Yes, if they are intregated and they make a saving in their processing, then they have something to go out into the market?

A You are speaking about a reduction in the price and that is one reason of prices declining; it is not because of the increase in gallonage particularly. It is due to both that and the lower costs of manufacturing.

Q You see the Imperial operate a great many stations, they

Q

that is going to save your gallonage per, or which would therefore be diluted. How far that [illegible] must replace something in the tank or "out and", you say that is doubtful, that that is not the needed thing to do at all. You have to let the [illegible] come in, the whole game day, the Union increase the [illegible] fuel.

Whatever might happen and if, as it seems, we know that at one time the Imperial had all the gallonage and it has been at some effort a doubtful case for the Imperial, made up by this annual increase, by the increase in consumption and so [illegible]-but generally it has been a healthy curve, but you may such must be continued and then no one knows [illegible] can; one scale go by difficulties. Does it not?

A It has been the experience of the oil industry that they are wondering that all the time by innovation and adoption of new processes.

New methods of marketing?

Q Well I am talking about, you are talking about the prices and I am talking about where they can afford to save.

A Yes, if they are interested and they make a saving in their processing. Then they have something to put into the market?

Q You are speaking about a reduction in the price and that is one reason of prices decline; it is not because of the increase in gallonage particularly. It is due to both that and the lower costs of manufacturing.

Q You see the Imperial operates a great many refineries, and

operate 282 bulk stations in the Province and if as a result of more and more competition, the gallonage in all of those stations is to be diluted throughout, why I presume their costs are going to get up, their costs per gallon are going to go up and then just as I was saying, perhaps superficially, there is not much hope of going to them and seeking any reduction in price, that is so, is it not, it has to be forced upon them in other words, nothing can come in your view from them, it must be forced upon them by competitive forces?

A That is right.

Q THE CHAIRMAN: Do you follow the Imperial price in Alberta?

A We follow competition. Not necessarily the Imperial price but the regular price, the prices that are established, we meet them.

Q You sell at whatever the local market price is?

A That is right.

Q You do not attempt to get more and you do not ever seek to get less?

A That is right.

THE CHAIRMAN: Did you say Mr. Doty was to be here in the morning.

MR. FRAWLEY: I am trying to oblige Mr. Doty if I can.

THE CHAIRMAN: But you want to ask him about the contracts after you have read them?

MR. FRAWLEY: Yes, that is the point.

THE CHAIRMAN: Then if it is not inconveniencing Mr. Doty we will be obliged?

A Yes, all right.

(At this stage the Hearing was adjourned until 9 A.M. 3rd August, 1939).

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta August 3rd, 1939

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I N D E X

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WITNESS

.....

E X H I B I T S

SHERMAN L. DOTY, recalled,

examined by Mr. Frawley, said:

Q Mr. Doty, I want to just finish these questions I was asking you yesterday and I had just got to the question about the dealer margin. In the Texas Company's evidence, Mr. Doty, there is a table showing some dealer margins at various points in Canada and the United States and you might just observe that the margin in Calgary is 4 cents; as a matter of fact the Texas Company is a little wrong about that, the margin in Calgary is 4½ cents for undivided dealers and Regina, and that may be right, 4 cents, Vancouver 5 cents, Winnipeg 4, Montreal 3½, New York 4.9; these would be, these American figures would be on the conversion to the Imperial gallon I am sure?

A Yes.

Q Chicago 5.3; Houston 5.4; St. Louis 4.8; Atlanta 4.8; Los Angeles 4.8; Butte, Montana 5.4.

Now with these margins, page 878 of Mr. Meltabarger's brief; now it looks as though there were a lot of places that had a longer margin even than Alberta and the question which I put to you is, should it be inferred from that table in the Texas Statement that the Alberta margins will advance or is it to be inferred that Alberta distribution is less wasteful and consequently has a lower margin than some other places, or is it some other reason, now what are your views about those matters?

A The margin has apparently been well controlled in the hands of the dealers.

Q In this Province?

A Yes, and inasmuch as this condition has prevailed for some 12 or 15 years, we have every reason to assume that the same efficient control will remain in effect. The Province of Alberta has enjoyed a steady growth in yearly output and therefore it is difficult to arrive at a time when the distribution system might be regarded as wasteful.

Q THE CHAIRMAN: As wasteful?

A Yes.

Q MR. FRAWLEY: Now we have an Exhibit here showing the dealer margins at every City, Town, Village, Hamlet in the Province where gasoline is sold. The Imperial Oil Company was good enough to get that information for us. There is, of course, as you might suppose absolutely no uniformity with them. The margins run all the way from 7 cents to I think the lowest are the Calgary and the Edmonton margins of 4 and 4½ cents; that is Exhibit "322", Mr. Chairman. Now of course there are a great many places, there are 24 sheets here. We will just see some of them, some of the bigger places; perhaps these points, well you would serve Lethbridge, you have a plant in Lethbridge?

A Yes.

Q At Lethbridge the margin on Ethyl is 4.3 and on regular 4 cents but of course these, 1 cent must be added to all of these; these are margins over posted tank waggon so we might say the effective spread at Lethbridge is 5.3 on Ethyl and 5 on regular.

THE CHAIRMAN: What are you asking the witness?

MR. FRAWLEY: I want to tell him something about some of these margins, Mr. Chairman. The margin at Blairmore is 6.7 on Ethyl, 7.5 on Regular, that makes the Ethyl margin 7.7 and 8.5 on regular; this was as at January 1st of this year; now let me give you one more and I will ask your views about this subject, if you will carry these in your mind, Vulcan, you have a plant at Vulcan, have you not?

A No.

Q The spread at Red Deer on the 1st of January of this year was 4.3 on Ethyl and 4.3 on Regular, that is an effective spread of 5.3 on those two gasolines. Now what have you got to say about the question of spread outside of the Cities of Calgary and Edmonton where the gallonage of course is smaller, do you think it should be uncontrolled?

A Well not being familiar with the local conditions at those points I do not feel qualified to say.

Q Without knowing something about the nature of the market?

A Yes.

Q And the size of the gallonage?

A That is right.

Q Well what are your views generally about letting the spread be determined wholly by the dealers?

A I believe that is the case in a great many points.

Q And certainly that is the case in Alberta completely, I mean do you favour that?

A I do.

Q You favour that?

A Yes.

Q You think that there is not, that it is better that the consumer should pay a margin of 7 cents rather than there should be introduced any Governmental control whatsoever?

A Oh I think competitive conditions will take care of that.

Q Well you see in what fashion, that is what bothers me a little bit; let me put this to you as the fact and I will have to ask you to assume this as a fact, that at the time of the last reduction in the posted tank waggon prices effective at Calgary and Edmonton, the Edmonton dealers, without any thought at all, passed it on fully to the consumer; the Calgary dealers, I am informed and I think we have been informed in the evidence, just met and decided they would not pass it on and there it stays; now I would like to have your views and you probably have had experinece in all these things, what do you think about that, do you think the consumer should be left at the mercy of the dealers in that respect?

A I would think that the competition would take care of that the same as it has in other places.

Q And would you say that competition should have seen to it that that reduction in tank waggon should have been passed on to the consumer?

A Well I do not say that particular one.

Q But generally speaking?

A Generally speaking.

Q Yes, and you would not see any reason for any exception in this latter case, you think that competition should have seen that that cut and all similar cuts should have been

passed on?

A That is right.

Q And you would perhaps say also then, Mr. Doty, that when you find a condition where it is not passed on competition does not seem to be doing its job?

A Well the dealer has necessarily, has to make a living out of it.

Q Yes?

A And I would think that would be up to him whether or not he could afford to pass that on.

Q Well there you are, do you not think, a person might be forgiven for thinking that this duplication, this great number of outlets dilutes the gallonage and makes that spread, how much it might be, not any too much under conditions of that kind, what do you think about that?

A Your idea is to decrease the number of service stations?

Q I am just suggesting to you whether or not that is something which should not seriously be considered just to meet this particular angle we have discussing now?

A Well I do not think it makes much difference whether the consumer pays for it in that way or relief money to take care of those people who were thrown out of work by decreasing the number of service stations.

Q Yes, I have heard that suggestion before. You say that it is just about as broad as it is long, that the consumer should pay what might look like an unconscionable spread, that he may as well pay it there as have the spread lower, rationalize it to some extent, close up some service stations, put some service station operators out of business and look after them on relief?

A Yes.

Q THE CHAIRMAN: Of course the whole relief burden has not been placed on the gasoline consumer alone?

A That is right.

Q MR. FRAWLEY: Can you tell us how much it costs your company to maintain its credit card service?

A I have not that information. I do know that our losses on the credit card service is, does not exceed 1/2 of 1%.

Q That is on your whole company's business?

A That is right.

Q The losses do not exceed 1/2 of 1%?

A No.

Q Do you say that the Alberta experience is better or worse than that?

A I cannot say but I would assume it would be approximately the same.

THE CHAIRMAN: What do you mean by losses.

Q MR. FRAWLEY: Yes, what do you mean by losses?

A Uncollected accounts.

Q THE CHAIRMAN: That is over and above the benefits you derive from the use of credit cards and you say the credit cards do that?

A Yes, it is just the bad debts alone.

Q MR. FRAWLEY: And you say they add up, how about the extra accounting?

A Well naturally there is some extra accounting but I am not in a position to say.

Q How much more than the 1/2 of 1% would be represented by that?

A No.

Q Now Mr. Doty, in view of the fact that your contract in British Columbia was one which was only made after a very careful examination of the price of crude oil, are you satisfied with the price of crude oil, the posted field price of crude oil in this Province in the Turner Valley field?

A I have not been closely enough connected with it to say definitely; I have not made a study of it except merely as a superficial one but it appears reasonable, compared with the California prices.

Q The reason I ask you this is, that apart from our marketing problems, the Commission has to consider the posted field price of crude and make some recommendations as to its fairness and otherwise; now one would have thought perhaps that your company in view of the approach you made to the matter of supplying your British Columbia market, that you might have got down to cases with the Imperial Oil and worked from the price of crude up or back from the price of gasoline to the price of crude and related it in some fashion, the price which you are paying for your products, to the posted field price of crude and the processing cost of the Imperial Oil at Calgary, why was that not done?

A Well the Imperial are paying us the posted price, the California price for crude oil and we are of the opinion that the prices they charge for their products in Alberta are reasonable based on that crude price plus cost of processing and handling.

Q Oh, that they are reasonable having in mind the prices

which they pay for California crude?

A Yes.

Q Of course there is no relation between those two things, the California crude and the Alberta products, or is there a relation in your mind?

A Oh I think they are related more or less.

Q How are they related, they may very well be but I do not follow you?

A Well we pay the Imperial a certain price for gasoline; we know what the posted crude oil price is.

Q In Turner Valley?

A In Turner Valley and we believe that it is a fair price based on the crude price.

Q Based on the crude price?

A Yes.

Q You think the price the Imperial charges you for their products, for your products, is a fair price having in mind the posted field price of Turner Valley crude?

A That is right.

Q THE CHAIRMAN: What do you say about the price of Turner Valley crude?

MR. FRAWLEY: That is exactly what I was going to ask; the posted field price of Turner Valley crude is fair or otherwise and by what standards?

A I am not in a position to say. I just do not know but comparing it with the California price I would say it is.

Q I suppose if the Imperial Oil----

Q THE CHAIRMAN: Now just a minute, he started to answer "compared with the California price he would suppose".

Q MR. FRAWLEY: "It is" he said?

A It is.

MR. FRAWLEY: He completed the answer.

THE CHAIRMAN: Oh, he finished.

WITNESS: Yes.

MR. FRAWLEY: Yes he did.

Q THE CHAIRMAN: And what is the California price that you are comparing with the Turner Valley price?

A Well the general price structure.

Q What is the current price?

A On what gravity?

Q The pipeline run is 43?

Q MR. FRAWLEY: Do you want to know our pipeline, let us see, it is about 43 gravity at $1.20?

A The only field in California producing oil with a gravity as high as that quotes $1.46 for 42-43 gravity; $1.50 for 43-44.

Q THE CHAIRMAN: 42-43, $1.46?

A Yes.

Q MR. FRAWLEY: That seems to me at least to be rather high; any particular reason for that?

A No, I do not think so.

Q What field is that, Mr. Doty?

A That is the Greeley Canal.

(Go to number 12,808)

S. L. Doty

MR. FRAWLEY: Mr. Doty points to the National Petroleum News of the 24th of May, 1939, where these quotations are found at Page 46.

THE CHAIRMAN: Exhibit?

MR. FRAWLEY: This one does not happen to have been made one. Perhaps we had better make it one.

(NATIONAL PETROLEUM NEWS 24th May, 1939, IS NOW MARKED EXHIBIT "559")

MR. FRAWLEY: Mr. Doty points to Page 46 of Exhibit "559" where the California quotations are and this Greeley Canal in Curran County shows for 43 to 43.9 $1.50.

THE CHAIRMAN: And 42 to 43?

A $1.46.

Q MR. FRAWLEY: And by the way, the way in which the prices go up with the gravity have not any uniformity there. There is a 4¢ increase there. 41 to 41.9 $1.43. Then it is interesting to note 40 to 41 $1.39. Do you think that is a proper comparison to make?

A I think so. That is of a similar gasoline content.

Q How would the sulphur be?

A The sulphur would be very much less than it is in Turner Valley.

Q So that you think using this particular field in California as a guide, the Imperial are certainly well under in posting $1.20?

A I believe that is right.

Q Of course, California crude could not by any stretch of imagination compete with Turner Valley crude, could it, for a Calgary refinery, I mean?

S. L. Doty

A No it could not.

Q It would be just impossible?

THE CHAIRMAN: As a matter of transportation?

A From a transportation standpoint.

MR. FRAWLEY: It would have to come by boat to Vancouver and from Vancouver by rail?

A Yes.

Q Do you know anything about crude prices in Montana.....?

THE CHAIRMAN: Before we leave that. It is more difficult to process and refine Turner Valley because of its extra sulphur content?

A Very much so.

Q And how about that field, is it a deep field, deep drilling?

A It is deep drilling, that is, the.....

Q The Greeley Canal?

A 11,000 feet.

Q MR. FRAWLEY: In Curran County?

A Yes.

Q The Greeley Canal field?

A Yes.

THE CHAIRMAN: What part of California is that in?

A The San Joaquin Valley;

MR. FRAWLEY: In Curran County.

THE CHAIRMAN: Any trouble with water, salt water?

A No, not so far.

Q MR. COMMISSIONER LIPSETT: Who posts the price there?

A The Standard Oil Company of California.

S. L. Doty

Q THE CHAIRMAN: Are they producers?

A They are, yes.

Q In that field?

A Yes.

Q Any other producers of consequence?

A There is quite a number of producers right around in that general area which use that price as a basis.

Q Are they the main producers in that field, the Standard Oil of California?

A I believe they are one of the largest.

Q MR. FRAWLEY: Does that high-priced crude have quite a ready market?

A Yes.

Q It is high in price because it has a higher gasoline content?

A That is correct.

Q It is adaptable for use in skimming plants, I suppose?

A Yes.

Q Now, you made a statement yesterday, Mr. Doty, that you felt at the time you were bringing gasoline, your company felt at the time you were bringing gasoline over the mountains to Alberta that you could continue to do that against a very unfavorable freight rate because the operation had to be looked at in its entirety and you felt that as you people produced the crude ultimately from which the gasoline was made at Vancouver and then shipped over the mountains, that it was profitable for you to do it, even against the unfavorable freight rates. Does that mean an integrated oil company looks, always looks naturally at the entire

S. L. Doty

operation before determining upon a course of action in either producing, refining or marketing operations?

A Not necessarily.

Q Is that the ordinary routine?

A I think we would look at it first from the posted price standpoint.

Q The posted price?

A Yes.

Q THE CHAIRMAN: Of crude?

A Of crude.

Q MR. FRAWLEY: Just elaborate upon that. What do you mean when you say we would look at it first?

A In determining the economics by comparing them with the posted price.

Q The economics of where the gasoline should go?

A Yes.

Q And how much return from the gasoline there should be?

A Yes.

Q In other words, there might be no return at all from the gasoline, as indeed there was in connection with your Alberta operation, I presume from the beginning, or was there at one time a net profit on the marketing operations in Alberta?

A I haven't that information with me. I believe at one time there was a slight profit, but I cannot say definitely.

Q But that turned into a loss and continued for quite many years to be a loss?

A That is right.

Q And it is still today, although you are on a new basis now.

S.L. Doty

But I am speaking of the other basis. You continued at a loss because you were looking at the posted field price and you had enough out of that to - meaning the difference between the cost of production and your posted field price?

A That is correct.

Q We have had a lot of evidence here that it is virtually impossible to determine the cost of production of a barrel of crude oil. Do you subscribe to that view?

A Yes, that is correct.

Q Why is it correct?

A There are so many factors involved.

Q That are unknown?

A That are unknown.

Q How was your company able to say, looking at the posted field price, we have enough profit between that and our cost of production that we can go a long way with our gasoline?

A Well, from past experience we can see the trend.

Q That is the most you can say, is the trend of the cost of production?

A That is right.

Q You cannot at any time determine the actual cost of production?

A I would say not.

Q How far could you go, how much could you know if an interested person walked into your office and asked you what your cost of production today in a certain field was? You could give him a figure, couldn't you?

S. L. Doty

A We could give him a figure based on certain assumptions.

Q For your company's purpose, that is quite sufficient?

A That is sufficient.

Q You are able to go a long way, in fact operate your whole business intelligently on that figure which you say is not the actual cost but a significant figure showing the trend of costs?

A That is right.

Q It is with a figure of that sort that you cameinto Alberta and continued in Alberta after you had a net loss from your marketing operations purely in Alberta?

A That is right.

Q THE CHAIRMAN: In a field which is fairly well proven, do youstay within, pretty well within the limits of the proven area?

A I do not quite get your question.

Q It has been suggested to us that the major companies are not in the main adventurers. They leave the wild catting to the public and do their drilling within that portion of a given field that is fairly well proven so that they may be secure. There is no criticism of that?

A I do not think that is entirely correct because the major companies discover most of the new pools.

Q Do you post a price in California anywhere?

A We follow the Standard Oil Company's posted field price.

Q You follow the Standard?

A Yes.

Q When you are following their price, I suppose you do not follow it blindly, or do you?

S. L. Doty

A No, we don't.

Q How do you determine whether or not the posted field price is, in your opinion, a fair and proper one to follow? How do you approach a consideration of the field price?

A We know the market for gasoline, gas oil, fuel oil, and we have information which gives the cost of transporting that oil to the refinery, and we have the refining costs, and we break it down and we can tell almost exactly what crude oil is worth.

Q You say having regard to what we can get for refined products?

A That is right.

Q On the open market?

A That is right.

Q And having regard to our costs we can afford to pay so much for the crude?

A That is correct.

Q And no more. If that coincides with what the Standard Oil has posted, you buy at that price?

A That is right.

Q Is there any occasion on which you went under or over that price of crude?

A Not recently.

Q By recently you mean what?

A Oh, the last ten years.

Q You sell to the Imperial then in British Columbia your crude oil at a field price determined by the Standard?

A That is right.

Q Is that the Standard Oil of New Jersey?

A The Standard Oil of California.

S. L. Doty

Q And since the one factor that governs what you pay for crude oil is what you can get from the public, it would be interesting to know how would you determine what public price should be? Do you let competition control that?

A Competition takes care of that.

Q All right.

Q MR. FRAWLEY: Mr. Doty, I would like to get your views on a specific situation here with a view to exploring the effect of the position of the integrated company with a profit on production on refining and marketing. We have in this province a rather peculiar situation insofar as it affects Southern Alberta. This is Calgary. And when I tell you that at this point here, Claresholm, about half-way to the Border, that beyond that it becomes quite unprofitable for a gallon of gasoline to be marketed from Calgary, from Turner Valley crude, south of Claresholm, and it must be done at an actual out-of-pocket expenditure, but still the Imperial continues to market through the whole of Southern Alberta right down to Coutts - well at Coutts through a wholly-owned subsidiary - but at Milk River through its own agency. Now what would you think if you were the Imperial - if you had not just a very small market but if you were the principal marketer in the position of the Imperial - what would be your reaction to that? What do you think your company would do?

A Do exactly what the Imperial is doing.

Q And why?

A Because they would have to maintain representation at all points.

S. L. Doty

Q Yes, but I do not suggest they should give it up. My suggestion is the gasoline might come from some other source altogether and not try to buck that freight rate. There is a lot of gasoline in Northern Montana?

A Maybe they take the same attitude as we do in Alberta.

Q They take the same attitude you do in Alberta?

A Yes.

Q And that is what?

THE CHAIRMAN: Buy home goods.

MR. FRAWLEY: Use Alberta crude?

A That is right.

Q Is it an unfair suggestion to make that because they have to sell their gasoline south of Clareholm at an actual out-of-pocket expense that the tank wagon price at Calgary is bearing the load, paying the shot to use a colloquialism. Assuming they make an over-all profit on their operation?

A I would not necessarily say that that is true.

Q That is what I am interested in having your views about. One would think at first blush that was so?

A Yes.

Q The Imperial tell us that they make their tank wagon price at Calgary 16½¢, and as you appreciate, it is 16½¢ now all over Alberta because it is 16½¢ plus freight. Now of course, they have to put their tank wagons down so that they have a tank wagon at Milk River of about, within a decimal point, the tank wagon at Calgary, and there is nothing for freight. That is why they lose money. I am suggesting to you and wanting your view about it, does not the tank wagon purchaser in what you might call the normal portion of Alberta

pay, and very definitely pay, something in his tank wagon price to enable the Imperial to market Alberta-made gasoline south of Claresholm. Before you answer, Mr. Cottle suggests I should tell you that the price structure in Alberta is Calgary plus freight except in that southern fringe where they cannot maintain it. But with that as a piece of basic information, I would like your views about that operation. I would like to know what it is doing and what is its effect?

A Its effect is it gives the buying public a little lower price.

Q It gives the buying public gasoline at a lower price?

A Yes.

Q Which portion of the public?

A Well, it gives the public that are fortunate enough to live in that particular area.

Q A lower price than those people in the other part?

A Yes.

Q But that is of necessity because they can buy Montana gasoline for the same price?

A That is right.

Q But what I am troubling about is, and I want to have your frank views on it, there may be nothing in it, but is the man who is buying gasoline at Red Deer, we will say, is he not contributing something in that tank wagon, or would his tank wagon not be something lower than that if the Imperial was not paying out money in freight rates on the southern distribution?

A Well, I think there is a lot to be said there. But in looking at the oil distribution as a whole, it is more or less

of an accommodation to the public in general, and I see no reason why the public adjacent to a producing field should get such a much lower price than the ones that live away.

Q You do not think that is particularly sound and that should not necessarily follow?

A It should not necessarily follow.

Q You see nothing wrong then with, as it were, averaging it all up and striking a tank wagon rate?

A That is right.

Q Over all Alberta and then there may be a portion of it that is there necessarily for the purpose of carrying the unprofitable market?

A That is right.

Q I think that is all, Mr. Doty, and I think there is nothing in those two contracts which you filed which requires any further elaboration. Except this, I cannot quite understand the position with regard to your Ethyl gasoline. What you say when you first arrive at..... Perhaps you can explain how you came to a price of 1¢ more, it seems to be, for Ethyl gasoline?

A Yes. This is our basic price, this price here.

Q We will see what you are reading from. You say looking at Exhibit "554" which is your products purchasing agreement, you find that the basic price of your motor gasoline is 8.36¢ per gallon?

A Yes. To that price you add these differentials. Ethyl motor gasoline 1¢.

Q That means you pay 1¢ more, you pay 9.36¢ for Ethyl gasoline?

S. L. Doty

A That is right.

Q Now, the next?

A 70 octane ¼¢ per gallon.

Q For 69 to 70 octane you say you pay ¼¢ per gallon?

A Yes.

Q What is the motor gasoline you pay that for?

A That is the base gasoline.

Q It would not have 69 to 70 octane?

A No.

Q About what octane would it have?

A Anywhere from 60 to 65.

Q 60 to 65?

A Yes.

Q You think that that ¼¢, which did seem a little small to me, that is quite sufficient?

A That is sufficient for that type of gasoline.

Q That is give you an increased octane gasoline?

A That is right.

Q That has nothing to do with the leading cost?

A That is the leading cost.

Q Oh, that is the leading cost?

A Yes.

Q Then both of these items A and B Ethyl motor gasoline 1¢ more per gallon than your base price and the 69 to 70 octane gasoline is ¼¢ more?

A Yes.

Q This really represents the leading cost?

A The leading cost.

Q I think perhaps before you go, I was reading yesterday

S. L. Doty

from a letter that Mr. Paul M. Gregg wrote to the Chairman of the Federal Tariff Board on the 17th of April, 1935. I think to complete the record I should ask you if this is the letter and file it?

A Yes, that is the letter. That is his signature.

THE CHAIRMAN: Who is Mr. Gregg?

MR. FRAWLEY: Mr. Gregg, is he still as he describes himself the Vice-President of the Union Oil Company of California?

A That is correct.

(LETTER IN QUESTION IS NOW MARKED EXHIBIT "560")

Q THE CHAIRMAN: You can tell us what is in it , Mr. Frawley, rather than reading it?

MR. FRAWLEY: It is a letter answering a series of questions, really answering a questionnaire sent out by the Tariff Board to the Oil Companies at the time of the Tariff Board Investigation in 1935 .

THE CHAIRMAN: You are filing it for what purpose?

MR. FRAWLEY: Because of the statements contained therein with respect to these earlier contracts. We now have the contracts it is quite true, but I thought when you came to read the record you might find it more useful and satisfactory if you had the letter itself to look at.

Q THE CHAIRMAN: Your company is a producer of oil, Mr. Doty?

A Yes it produces and purchases crude oil.

Q To what extent are you a producer? What is your gallonage

S. L. Doty

in barrels roughly?

A Roughly 50,000 a day.

Q 50,000 a day? You have your own pipe line?

A Yes.

Q To any place? Where does your pipe-line run to?

A We have two pipe-line systems, one connecting all the fields in the Los Angeles basin, and another one connecting the fields in the San Joaquin Valley.

Q You refine?

A We do.

Q What are you turning out in refined products, gasoline, for example, out of your refineries per day?

A You mean volume?

Q Yes, volume?

A Roughly 25,000 barrels per day.

Q You make your own lubes and greases in addition to your gasoline?

A Yes.

Q You do your own marketing?

A Yes.

Q You do not employ jobbers, or do you?

A We do not employ..... I do not know what you classify as jobbers. We sell wholesale and they re-distribute it at different points, yes.

Q To what extent is your product handled through jobbers as distinguished from directly by your Marketing Department?

A I haven't that information but it is a small part.

Q A small part through jobbers?

S. L. Doty

A Yes, a small part through jobbers.

Q In the United States are jobbers usually bound by contract or do jobbers get their product from whatever refinery they can that week or that day?

A I think they almost invariably have contracts.

Q Extending over a period of, on the average, what, a year?

A I think it is a yearly contract as a rule.

Q Now, we have had different views as to the merit of operating as an integrated company and the demerits attached. What are your views about that? As an oil man of long experience, would you say that the hope of everyone in the oil business is to operate as an integrated company? Perform all the operations and all the functions?

A I think that that is true. It has been my experience that an integrated company gives better service to the public than an independent company that refines in a small area and markets its products by dumping it into independent stations in metropolitan areas.

Q I suppose what you might lose in one department you could pick up in another?

A That is right.

Q And you have a better over-all picture?

A That is right.

Q In the case of an integrated company?

A Yes, that is correct.

Q It has been suggested to us that the jobbers are essential to the life of the industry and that they provide innovations and are keen to find cheaper ways of marketing and that they provide very real and active competition to the

major refiners?

A I believe that is correct.

Q In your view they have a proper place in the industry and they should be maintained?

A They do, yes.

Q In Alberta - I think I asked you before perhaps but you would not mind telling me again - you follow the Imperial price throughout?

A We follow the compatitive prices that are posted. If the Imperial does the posting, we follow them. If someone else posts them, we follow them.

Q Is it a rule in oil fields, including this one, as far as you know, for competitors to follow the posted price or is there much individual posting?

A They practically all follow the posted price. If there are any sales, it is based on so much under the posted price or so much over the posted price.

Q I suppose there is not much cutting of the posted price unless one is prepared for an oil war?

A That is right.

Q I mean, unless there be some special reason for it, the posted price is followed?

A The posted price is followed very closely.

Q Is the producer of oil ever taken into account, I mean by that his costs in getting production, and the desirability of giving him a margin so that further exploration may take place, and so on? Speaking of the independent producer?

(Go to Page 12,824)

S. L. Doty

A Oh , I think that is the factor, yes.

Q Where you, most of the major companies, I take it, are integrated companies, they are producers?

A Yes, most of them are.

Q And they are not at the mercy of independent producers of crude oil?

A That is correct.

Q They can produce their own?

A That is correct.

Q I take it that it is desirable to have independents in many fields, is it not, from the standpoint of the major companies?

A Well ----

Q They do some exploratory work, do they not?

A They do some but I think the major companies do by far the most of it.

Q It has been suggested to us that the major companies are not gamblers in the main, while they do some exploratory work, that they greatly welcome independents in any new field to establish its boundaries, to help them to establish its boundaries, perhaps I should put it that way, what do you think of that?

A Well they probably do, that is human nature.

Q Yes, and it has been suggested on the one hand that it might be desirable for a company like the Imperial to occupy the whole of the Turner Valley field if it could and it has been suggested on the other hand that that is absurd, a major company does not want all the risks in any field, what are your views about that; again I am

not asking you to direct your mind to this valley but to the oil business generally and out of your wide experience give us the benefit of your views?

A Well I do not know who would not like to have everything that is there if they could get it.

Q Well, there is the other point of view you know, that we are actually interested in exploring?

A Yes.

Q That no major company wants the whole field?

A I do not think that is true.

Q If they could get the whole field they would like to have it?

A Yes, they would like to have it but it is just impossible.

Q Somebody else will come in?

A Yes.

Q MR. FRAWLEY: Just arising out of that, Mr. Doty, is there a pro-ration law in California by statute?

A Not yet. There was a Bill passed by the legislature and signed by the Governor which will be effective in about 60 days if a referendum is not called but I understand there is a petition circulating for a referendum.

Q Which would delay the Statute coming into force?

THE CHAIRMAN: Which might defeat it entirely, I take it, or might prevent it ever coming in?

A It might.

Q MR. FRAWLEY: There is at the moment no pro-ration by Statute in California?

A That is correct.

S. L. Doty

Q But there is pro-ration?

A It is voluntary curtailment.

Q There is a voluntary curtailment of production in California?

A Yes.

Q Why is that?

A In order to maintain a fair price for the crude oil.

Q In order to maintain a fair price for the crude oil; well now, would you mind just taking us through the steps why you say that, to accomplish a fair price it perhaps is obviou but I would like it?

A If the production were allowed to run wild it would not be but a very little while that everybody's tanks would be full and they would be giving it away and some people that did not have storage and could not handle it would be giving it away.

Q Yes. Now I take it then that this is a pro-ration to prevent chaos in the industry?

A That is right.

Q Has it anything at all to do with the necessity of there being rateable withdrawal from a common reservoir?

A It very distinctly has.

Q It also has something to do with that?

A Yes.

Q There are many fields, I take it, in California, how many, I mean how many fields are there?

A There are a great many, between 30 and 35.

Q Yes, and of course the reservoir is not common to them all?

A Pardon.

S. L. Doty

Q The reservoir is not common to them all?

A Oh, no.

Q But I take it there is a common reservoir in each field?

A Not necessarily so but lots of fields are divided by faults.

Q I just want to explore that with you, you say the voluntary curtailment is to prevent chaos for production in the industry?

A Yes.

Q And also to bring about rateable withdrawals having in mind the maintenance of the natural resource?

A That is right.

Q Well, if there was no common reservoir there is nothing in that, is there?

A Well there is a common reservoir in each pool you might say.

Q There is a common reservoir, whether there be two reservoirs in one field or not?

A Sure.

Q Or two or three?

A That is right.

Q The wells are drawing from common reservoirs is perhaps the right way to put it?

A Yes.

Q And because of that fact and that fact is the second reason for the voluntary curtailment of production?

A Yes.

Q And would you say that wherever there is more potential production than there is market that there must be, and I

am thinking of the first reason for the curtailment down there, the first reason you mentioned, would you say wherever there is more potential production than market that there must be pro-ration?

A Absolutely.

Q In the interests of the whole industry?

A The whole industry and conserving the oil and gas for future use.

Q Yes, well conserving the oil and gas, preventing it ---

A Its waste.

Q Its waste even from the price standpoint?

A Yes.

Q Because I presume when there is more production than the market can take up, then there is a price cut and as you say it is sometimes given away when that comes about?

A Yes.

Q And that is why you say you have voluntary curtailment of the oil production in the state of California?

A Yes.

Q And you say you have reason to believe it will be crystalize into a Statute by the legislature soon?

A It is on the way. Whether it finally comes in or not I do not know.

Q This referendum may defeat it?

A Yes.

Q What I suppose you are saying is in your opinion ultimately it must come?

A I believe so, yes.

Q MAJOR LIPSETT: Where there is that pro-ration, Mr. Doty, does that apply to the small wells too, the very

small wells?

A Oh, they have allowables set for each well and certainly the small ones are allowed a higher one in reference to their potential than the larger ones so as to protect the small producing wells.

Q Or they would have to shut down probably?

A They probably would. The curtailment is based on the large wells.

Q THE CHAIRMAN: That is not consistent with the common reservoir idea. How can you work a common reservoir unless you control the number of wells which are to be drilled?

A Well that is the proper way to do it.

Q Is it not idle to say you have a common reservoir and let anybody and everybody drill, that wants to, as many wells as they want to; the man with his one well, if enough wells are drilled, will soon be able to sell about a gallon a day?

A That is right.

Q MR. FRAWLEY: Mr. Doty, I would like to have your views on one final question now. Speaking of the jobber the Chairman was speaking about before, and I wonder if the jobber as you know him in California is the same as the jobber we know up here in Alberta, and I want to get your views on a typical jobber in Alberta and I do not want you to be backward in discussing it because you are in the business here; take the North Star or a similar company, that maintains 89 bulk stations throughout the province side by side with its supplier the Imperial who maintains 282 of this same type of station and the British American, the

days?

A That is right.

Q Mr. McLain:

other refinery, who maintains 282, on not quite the same operation because they have changed their system a little, but you know the North Star picture in Alberta, particularly as it graphically described on the map; in other words let me describe it this way, it is an operation that does everything which the refinery does except refine; markets under its own name and so on. Have you any operation like that in California that you call a jobber?

A We have not.

Q That is what I thought and I wanted to make that clear; the jobber to you, as you know him in California, is not quite the North Star operation in Alberta?

A It is not.

Q What you call, how would you best, in your own language, describe the North Star operation in Alberta?

A Oh, I think he comes under the classification of a jobber all right.

Q Yes, there is not much else you can call him?

A No.

Q It is just a matter of words; now let me go further, you said the jobber as you knew him in Alberta played an important part in the industry?

A That is right.

Q Now I want to ask you very bluntly and I want you to be very frank, what is the value to the industry in Alberta and to the consumer of the North Star operation and I would like your considered view on that, Mr. Doty; just appreciating everything it does and does not do?

A Well it stimulates competition.

Q The North Star stimulates competition, how does it stimulate competition?

A Well, it has additional outlets.

Q Oh, additional to the Imperial's?

A Yes.

Q Well that is true he has but how does that stimulate competition; he is performing the same services, selling the same gasoline really, under another name; his operation is so exactly a duplication of the Imperial one, maintaining Imperial prices throughout and that is what I want your view on, how does he stimulate competition in any way that benefits the consumer?

A Well he gives the consumer better service and they employ additional labor.

Q Oh, they employ labor, that is coming back to your point about closing up the service stations but setting that aside, I mean for this argument, setting it aside, what other good does that particular North Star operation, - or anything like that, I mean, - do in Alberta?

A Not being familiar with the North Star operations I feel I am not qualified to answer that.

Q Now the jobber in California, what does he do so that the Commission will have a clear understanding in their minds, because we have had so much about the jobber from witnesses who may have been talking about the American jobber, what does the California jobber do?

A Well the California jobber, as a rule, it may have one or it may have several service stations.

Q And when you say several you mean?

A A dozen or two dozen, that he operates and he buys the gasoline and sells it.

Q Yes, and he, does he buy gasoline wherever he can find it; you told the Chairman he was usally tied by contract for a year?

A Yes, but there are many split-pump accounts, as we call them, that handle several grades of gasoline.

Q The jobber?

A Yes.

Q So the jobber might have a contract, a yearly contract with two or three refineries?

A That is right.

Q Oh, yes and he is buying different products?

A Or he may have a contract with one company.

Q THE CHAIRMAN: He gets a price for a certain gallonage?

A Yes.

Q He may have half a dozen refineries on the string as I understand it?

A Yes.

Q MR. FRAWLEY: And you say that fellow does some good in the picture because he is free, of course, to bring down the price, does he sometimes do that?

A He does.

Q THE CHAIRMAN: Just explore whether or not he sets up a brand of his own as though he were selling his own gasoline?

Q MR. FRAWLEY: Oh yes, how about the brand name?

A I believe there are cases of that kind.

Q In California?

A Yes.

Q What is the general practice?

A The general practice is to sell it under the company's brand.

Q He buys 76 gasoline and he sells it as 76 gasoline?

A Yes.

Q Not as John Jones' gasoline?

A No, but there are cases where they sell it under their own brand.

Q If they are big enough, if they come to you and take enough of it, you will permit them to do that, is that a fact?

A Well, I would not say that was a fact because we like to see our gasoline sold through the legitimate channels.

Q And under your own name?

A Under our own name.

Q Most of your gasoline is sold under your own name?

A Yes.

Q Is any appreciable amount of it jobbed out in tank car and the name lost and the name of the purchaser put on it?

A There are cases of that.

Q A small percentage of your total gallonage?

A A very small percentage.

Q You understand the jobber here, of course, the very first essential is that he has his own brand name and sells it as his own gasoline?

MR. HEIMAN: That is exactly what the

witness is doing himself now in Alberta.

Q MR. FRAWLEY: Quite, you are a jobber in Alberta?

A Yes, at the present time we are. How long that will continue, I do not know.

Q No. As a matter of fact you have a very respectable gallonage over in British Columbia, have you not?

A We have.

Q And you are doing the same thing there as Mr. Helman points out you are doing here, you are buying Imperial gasoline but at least it is from your own crude?

A That is right.

MR. FRAWLEY: All right.

THE CHAIRMAN: That is all, thank you.

MR. FRAWLEY: Thank you very much, Mr. Doty. I will call Mr. MacKenzie. But just before Mr. MacKenzie goes on I want to file as an Exhibit, I should have asked Mr. Doty, in line with the other witnesses, Mr. Doty, is this the employees' benefit plan of your company?

A Yes it is.

MR. FRAWLEY: I offer this as an Exhibit, Mr. Chairman.

(EMPLOYEES BENEFIT PLAN OF THE UNION OIL COMPANY PRODUCED AND MARKED AS EXHIBIT "561".)

MR. FRAWLEY: I will call Mr. MacKenzie.

(S. J. Helman, Esq., K. C. appeared as counsel for Mr. MacKenzie.)

GEORGE A. MACKENZIE, having been recalled, examined by Mr. Frawley, said:

Q MR. FRAWLEY: Mr. MacKenzie, before I resume any questions, Mr. MacKenzie, did you have any unfinished matters you can deal with yourself without any questioning by me; if you recall anything you were asked to prepare which you might file now?

A Yes.

Q What is the first thing?

A You asked me, My Lord, to show any further sales which were made in the province below the Imperial's tank wagon prices at various points.

Q Yes?

A So I have taken and listed here ----

Q Let us mark it and then discuss it, is this all one?

A Well that is the whole thing.

MR. FRAWLEY: Mr. MacKenzie produces a statement of two sheets which are offered to establish the fact that at various points Great West Distributors sold Petroleum Products at less than the posted tank wagon prices of Imperial Oil?

A That is right.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "562")

Q Now supporting Exhibit "562" have you some invoices?

A I have approximately 191.

Q There are approximately 191 invoices?

A 191 approximately.

Q Do I understand that there is an invoice, you are now

offering invoices covering each item on the Exhibit?

A On the Exhibit of the sales which are made there.

Q And in the same order?

A Yes.

THE CHAIRMAN: They will be Exhibit "562" (a).

(INVOICES PRODUCED SUPPORTING EXHIBIT "562" HERE MARKED AS EXHIBIT "562" (a).)

Q MR. FRAWLEY: Now I just want to ask you perhaps one question about that, would you take the first item of ----

THE CHAIRMAN: Does the sheet disclose over what period of time that continued and what years?

MR. FRAWLEY: Those are all in the year 1939, Mr. Chairman.

THE CHAIRMAN: Isolated instances of sales?

MR. FRAWLEY: Well Sheet 1 that seems to run, I see what you have done, you have taken, you have taken a station and then run through all of the instances at that station it would seem from the way the list is set out?

A Yes, we have, illustrating that for instance, Alix sold to Bashaw and Mirror, we have listed the different points and stations where these products were sold.

MR. FRAWLEY: Answering your question, Mr. Chairman, the list is not prepared chronologically but the earliest date in 1939 seems to be January 5th and they seem to run through all of the months down to May. There is one here in June, June 3rd.

MR. HELMAN: I might say for the benfit of the Commission that Mr. MacKenzie explained to me that this list does not purport to be exhaustive. He has just taken

for the year 1939. He said it would take a considerable amount of work and a lot of men working on it to go back to the other years but he is willing to do that and give that information to the Board if desired, but it will entail a lot of work because no effort has been made in his office to keep these things separate. We picked it out illustrating it for the year 1939.

THE CHAIRMAN: What I was asking, Mr. Helman, is whether or not it serves to show, I was merely asking what this Exhibit is without reading it all. Does it serve to show than on a given Thursday Mr. MacKenzie's agent undersold the Imperial's agent at a given point or is it showing over a period of three months Mr. MacKenzie at any given point undersold the Imperial for three days or anything, or is it isolated sales?

MR. FRAWLEY: Oh, isolated sales I would say it was.

A Yes, it is the continued policy of my company in these contracts, we do not follow as I said the Imperial's established tank wagon price. If we deliver to some station or some point, if the tank wagon price is higher we pay no attention to that. We sell at these prices and it is nothing more, it is a general policy of our company in doing that.

Q It has been suggested, Mr. MacKenzie, to us that while a dealer may in an isolated case sell for less than the Imperial prices, that no one in your position is going to buck the Imperial very long and take on a price war with them and that in the main you would be bound to follow

their prices, what do you say about that?

A Well that has always been suggested to me by many people in the business we are in, they say, "We do not see how you operate with a club like the Imperial Oil or others use", but I do not pay any attention to that. We continue on our own basis of marketing and the policy we have. True they establish a tank wagon price and the other companies no doubt do the same, whether they follow that same condition themselves I do not know. They do in many instances but possibly in some instances they themselves do not follow it but that is our policy, My Lord, and what we have done and it has been our policy right along.

Q How do you arrive at your prices if you do not follow them?

A Well possibly ---

Q You are buying at a certain price?

A For instance you take, well for instance you take a point like Red Deer as one illustration.

Q Yes?

A Well the tank wagon price at Red Deer we will say is so much. Well then, Bentley or some other point from there, our agent , then if he sells in that area, he delivers, they go to the country to make deliveries, well we do not sell at the Bentley pump wagon price there, which the slips will show, but we sell at what our regular price is and in the instance at Bentley the consumer obtains the benefit of that by receiving lower prices. Now no doubt it may be a condition through that force of competition that the Imperial or others will again change their prices into

these special discounts you have noticed and we read about in the papers. That is why they have been created, in many instances created, those conditions which are created by the independent dealer. I do not say that policy is our own. I believe other jobbers do the same thing in this province and that is why I say that the jobber is very competitive to the major companies and that the consumers do actually receive a benefit through the jobbers of the lower prices and we are not dictated to in that way at all. It is the same way with Imperial Oil or anything of that nature, we do not follow anybody's price on that at all, or greases, we absolutely carry on our own ideas on that and our own policy.

Q MR. FRAWLEY: Now, I may have to take a long time about this because let me start off and ask you a question I asked you the other day, Mr. MacKenzie, if I went down to the telephone now and phoned your station at Camrose and said, "Mr. Jones, what is your price on Red Head Gasoline today.", what answer would he give me?

A He would give you our price at Camrose.

Q All right, and if I had phoned him on the 8th of January or on the 5th of January 1939 and asked him "What is your price on Red Head Gasoline at Camrose.", I suggest to you he would say, "My price is 19.6", which is the Imperial Oil Company's price at Camrose on that date for Three Star Gasoline; now let us get that far anyway?

A It would depend on the volume of gasoline you would take out.

Q This is up to this point?

A He would give you that price but, all right,---

G. A. MacKenzie

Q All right, just step by step, I want to help you to make your point with the Commission. My first question to your agent is, "What is your price of Red Head Gasoline today.", and he would say, "My price is 19.6."?

A Yes.

Q And that is the Imperial Oil's price or was at that date for Three Star?

A Yes.

Q Now so far so good and then you say if I came in from Bawlf ---

A Yes.

Q To Camrose...

A Yes.

Q And I asked him for, now this is March, just a second now, this is March, 1939 , and I came in from Bawlf and I wanted a load of Red Head Gasoline, now then, would he stop and say, go some place to find out what the Imperial's price is at Bawlf, is that what you mean?

A No, if he came in from Bawlf, as an illustration, to our agent, we pay our agents a commission as you know of say 2 cents a gallon for selling gasoline for us; this agent makes deliveries. Well then, if this agent came from Bawlf, as an illustration, we would give him our Camrose price and we would deliver to Bawlf at that price which would be a benefit to that agent.

G. A. MacKenzie.

Q Let us be specific, and let me take one of the invoices that you have filed, it is machine numbered, invoice 107945. That is Camrose. Have you got the invoice numbers there? It is on page 1.

THE CHAIRMAN: Just excuse me one minute, Mr. Frawley.

Q MR. FRAWLEY: It is that first R. H. gasoline item there?

A Yes.

Q Now, you have enough particulars, I dare say, on your sheet to follow me from the notes?

A Oh, yes.

Q Looking at sheet, Exhibit "562", and taking the item March 22nd, invoice No. 107945, a sale from the Camrose agency, a sale to Bawlf of Red Head gasoline?

A Yes.

Q 19.6 tank waggon at agency and selling price, and tank waggon price, Town Sold To, 19.8. Now, I want to follow you through one transaction, and the Board will understand what it is and what it is not This invoice shows that your company at the Camrose sub-station sold to A. G. Peterson at Bawlf on the 22nd of March, 1939, 45 gallons of Red Head gasoline at a price of 19.6 cents. Now, the Imperial Oil price list at that date showed that Camrose was 19.6 cents. That is the price which you charged the man who came in from Bawlf and took it away, 19.6. You have a figure in the last column of your Exhibit "562" of 19.8. What is the 19.8?

A That is the established tank waggon price at Bawlf.

MR. HIEMAN: I think you misled the witness by saying he took it away. We delivered it to Bawlf.

G. A. MacKenzie.

Q MR. FRAWLEY: First of all, I do not see Bawlf on the Imperial price list. Where did you get the 19.8, Mr. MacKenzie. The B. A., perhaps, had a price list there?

A Well, the Imperial tank waggon , or the British American, or either one of the two.

Q You are just using either one. If there is no Imperial station there is a B. A., perhaps?

A That is right. I have not got these other prices with me.

Q Yes, there probably is a B. A. station but there is not any Imperial station?

A I might explain to you that when we mention tank waggon price at town sold we would illustrate that as either the Imperial Oil or the British American Oil tank waggon.

Q Yes, because I cannot find any Bawlf for the Imperial Oil?

A Yes.

THE CHAIRMAN: May they be counted on to be the same?

A Yes.

Q The Imperial and the B. A.?

A Yes. They should have typed that in but, unfortunately, they did not do that.

Q MR. FRAWLEY: No, the Chairman was asking you may we assume it to be true they would be the same, the Imperial and the B. A.?

A Yes.

Q Who is A. J. Peterson of Bawlf, is he a farmer consumer?

A We presume he is a farmer.

Q Just a farmer?

A Yes.

Q What you say there is that your Camrose dealer took this load

of gasoline out to Mr. Peterson and delivered it on his farm at Bawlf and charged him the Camrose price?

A That is right.

Q That is really your point before the Commission and whatever inference may be drawn from that, that is the whole point. You delivered from Camrose to Bawlf at the Camrose rprice?

A Yes, or those other places on the same basis.

Q But one instance is as good as a dozen, I take it?

A Understand me clearly on this, I am only taking these slips, you see, as they came into our office. That is the way I took them. I am not personally acquainted with these different farmers and people who might buy our products, because, as you know, there are thousands. I am talking as a general policy. Now, these were taken out of the sheets that came into the office and I told them not to have any of these taken as dealers but as consumers.

Q MR. COMMISSIONER LIPSETT: Take that case, Mr. MacKenzie, of the Imperial agent at Camrose. Would he refuse to give that free delivery to the farmer at the Camrose price?

A He would if they had a point there. I presume, I am not speaking for the Imperial, understand, that he would have charged the Bawlf price.

Q MR. FRAWLEY: But if they had what they call an inland dealer at Bawlf, the Imperial, who was trucking from Camrose, what price would the customer of the inland dealer at Bawlf pay?

A He would pay 19.8 cents. He would pay on that Camrose slip 19.8.

Q I see then that it is not a case of an isolated instance. What you say is you give instructions to your agents that for

the business which they transact, which you might call normal business of the station, they follow the Imperial Oil price?

A We send a price list out to them.

Q Yes, but they are the Imperial Oil prices?

A They may and they may not be. They may be the British American. But I assume that both of them are on the same basis.

Q When I say Imperial it is because they have the big distributtion. Where they have not a station we generally find a B. A. one and the price structure is the same?

A Yes.

Q And what your instructions are, is that at the station you follow the established Imperial or British American prices?

A We do not follow them, no. We send our price list out. We do not just follow the Imperial or the British American prices. We put our same price list to our stations just the same as any other company puts them out. We do not go to the agent and say "Here, whatever the Imperial Oil is selling at you follow those prices."

Q It is done in the head office in Calgary, you do it. But some place somebody ascertains the Imperial Oil or British American prices?

A Yes.

Q And then you send them out to your stations?

A Yes.

Q And that is a businesslike way of doing it. But at the average place where each company has a sub-station they are identical with the Imperial or British American prices?

A Oh, no.

Q What is the difference?

A For instance, we will go to work and allow them special

discounts to other people in the territory, such as on tractor gasoline and those products. We do not follow in that station or even in that district in all instances the Imperial or the British American established tank waggon price. We use our own judgment in a case of that nature. We do not say we must do that. If you would like instances of that kind I will be pleased to get them for you, of that policy. But the point I take is this, we operate very much all over the Province of Alberta and the idea was that anything the Imperial Oil did or the British American Oil did that we followed it. Now, we don't. I gave some lists the other day and His Lordship asked me if I could show further slips and I picked those out, about one hundred and ninety odd, I just counted them this morning and I may be wrong on the number, but we can supply further if you still want further information on the policy that we do not follow at each particular station the Imperial Oil and the other, I will be glad to get you the additional slips on that, which I am sure I can. I cannot cite specific cases, as you know we have thousands of places we do business.

Q MR. COMMISSIONER LIPSETT: I do not follow quite exactly what these slips purport to do. The instance Mr. Frawley gives is that this particular farmer buys from Camrose and he gets the same price delivered there as the Imperial would?

A If he buys from Bawlf it will cost him some more. For instance, Mr. Frawley just happened to get a 45 gallon drum of gasoline and one sale, which is a small sale at Bawlf. But our man takes and he delivers this particular gasoline to that party. Now, the Bawlf price is 19.8 and the Camrose price is 19.6. Then we sold at the Camrose

price but delivered at Bawlf.

Q Won't the Imperial agent at Camrose do exactly the same thing?

A No, nor any other place. That is my opinion.

Q We have had a lot of evidence about free delivery?

A I know, but you are treading in another agency's territory or another point which they would have.

MR. HELMAN: Perhaps I can clear this up. The British American have a station at Bawlf where they charge 19.8 for their gasoline?

A Yes.

Q That is right?

A Yes.

Q You sold this gasoline to the man at Bawlf and delivered it to him at 19:6?

A Correct.

Q So that he gets the benefit of .2 cents on his gasoline, although he lives at Bawlf where the British American have a station, yet they charge 19.8. That is the whole point.

MR. COMMISSIONER LIPSETT: The point is, Mr. Helman, won't every dealer in Camrose do exactly the same thing?

MR. HELMAN: Not for the distance. If you will look at this you will see they won't get in on another one's territory, from Innisfail to Penhold, for instance. That is my instructions.

MR. COMMISSIONER LIPSETT: At this particular point where there is no Imperial agent at Bawlf?

A I believe the Imperial must have a place at Bawlf.

MR. HELMAN: That is just an isolated example. that was picked out. But take Innisfail and Penhold. I am sure at Penhold the most of the other companies have stations, but you find we supply it at the Innisfail price to Penhold.

THE CHAIRMAN: You would not do it either if you had a station at Bawlf.

MR. HELMAN: We could deliver it to Bawlf and charge him the extra .2 cents, but we do not. You say we charge the same as the Imperial at Bawlf, but we do not. We charge him the same as we do at the point from which we are making the shipment but we make free delivery, which must go to the ultimate advantage of the consumer, as he is getting something cheaper. He is getting it cheaper. That man who lives at Bawlf, he gets it .2 cents cheaper than if he went to the British American who have a station there.

THE CHAIRMAN: You haven't a station at Bawlf?

MR. HELMAN: No, we have no station.

Q THE CHAIRMAN: We will assume for the moment the Imperial has not a station at Bawlf. What Mr. Commissioner Lipsett is asking you, as I understand it, is would not they do exactly the same thing.

MR. HALMAN: As I understand the thing, they charge the tank waggon price at Bawlf for delivery in Bawlf.

THE CHAIRMAN: Even if they have no station there?

MR. HELMAN: Yes. The B. A. has a station there and they fix the tank waggon price at that point. These are just examples of the different policies that Mr. MacKenzie has built up, which is different from what the integrated companies are doing, and which is resulting in substantial, well, in fractional savings to the public who happen to come to his station.

MR. COMMISSIONER LIPSETT: There may be a more typical and better example you can give us.

Q MR. HELMAN: Can you pick out some places where

you have made deliveries and where the Imperial have a station?

MR. FRAWLEY: There is one, I was coming to that. There is an instance of Red Deer and Eckville, which has just as good as any.

MR. HARVIE: I may say for the purpose of the record that according to this map there is a B. A. station and a Lion Oils station at Bawlf.

MR. FRAWLEY: Yes, and it is the B. A. ruling price then that he was going by at Bawlf.

A Would you mind, if it makes no difference, Mr. Frawley, for instance, you take at Sylvan Lake as an illustration. I think all the oil companies are in there, aren't they, the Imperial and British American, and I am not sure of Eckville.

Q Yes. This proves your point. There is an Imperial station at Eckville and Red Deer. We will follow your point up. You go down near the bottom of the page?

MR. HELMAN: The eleventh from the bottom.

MR. FRAWLEY: April 1st, No. 30276. On that day you sold to somebody, the Benalto Co-Op., Randolph somebody, at Eckville, you sold him at Red Deer. You sold him--- or you sold him from Red Deer, and you sold him 225 gallons of Red Head gasoline and you charged 18.7 cents. 18.7 is the Red Deer price?

A Yes.

Q We have to add to this mere invoice that your company, at your company's expense, delivered that gasoline to Eckville. That is what you say you did. You delivered it to his place of business at Eckville?

A Yes.

Q That is so, is it not?

THE CHAIRMAN: At the Red Deer price?

MR. FRAWLEY: At the Red Deer price?

A Yes.

Q That is important?

A Yes.

Q Your point is this, if that man or company, whatever it is, had gone to the Imperial Oil Company at Eckville, at its Eckville station and had placed his order there and had delivery made from the Imperial Oil station at Eckville, he would have paid----

A 19.1 cent.

Q Because that on that day was the posted tank waggon price at Eckville?

A That is right.

Q That is your whole point, is it not?

A Yes.

MR. COMMISSIONER LIPSETT: Is not Eckville further away from Calgary than Benalto?

MR. FRAWLEY: It is Red Deer and Eckville we are talking about now.

MR. COMMISSIONER LIPSETT: Delivered where?

MR. FRAWLEY: Mr. MacKenzie said delivered from Red Deer to Eckville at the Red Deer price. That is very important that that is the fact. Without that there is nothing in it. That is so, is it not?

A That is so, and there is the slips to indicate that.

Q We have to add your word to the slip. The slip itself does not convey that information, at least unless you understand it better than I do.

A Yes, there it is there, 18.7 the price, and there is the tax.

Q It does not indicate delivery though?

A I presume that the dealer delivered that. That is his slip----

Q You have a point if he did deliver, and I suggest, with respect, you have no point if he did not deliver?

A I say they did deliver that because they make deliveries to the different points, and particularly 225 gallons.

Q This is to the Benalto Co-Op?

A Yes.

Q They might have a truck and come in and take delivery at your place?

A If you would like I can ascertain what is the fact. The agent, I presume, does the delivery because our man has trucks there for that purpose.

MR. COMMISSIONER LIPSETT: He might have paid the party for delivering, for his own work?

MR. HELMAN: Is it your general policy that these deliveries should be made at these points in accordance with what these individual slips show?

A This is our general policy and I take it for granted that these are all deliveries made.

Q Your instructions are to your agents that they should make deliveries to these outside points at these local prices?

A That is right.

Q MR. COMMISSIONER LIPSETT: Does the company allow him for that delivery?

A We allow him 2 cents a gallon as commission. We pay our agents the same as other companies do any delivery he gets he takes it out of his 2 cents. For instance, when you are on that question, you can take Southern Alberta and different parts of Alberta. I was here once and I think it was Mr. Plotkins I heard asking what difference 2 cents

or 1 cent allowance made. I believe if you follow that through you will find where the major oil companies made that allowance in their price. For instance, the price as an illustration might be 14 cents, and the allowance 2 cents, and bringing the price down to 12 cents. That was a condition that was created by the jobbers in selling on a similar basis and then the major companies came along and met this price situation, which we did, of delivery.

Q MR. COMMISSIONER LIPSETT: Does not the Imperial agent get exactly the same commission as your agent at Red Deer gets?

A I believe he does. Of that I am not sure. I cannot speak for them.

Q Doesn't he make delivery also and take it out of that commission?

A Yes.

Q If the Benalto Creamery went into the Imperial agent instead of into your warehouse in Red Deer, would he not get exactly the same service at exactly the same price?

A No, because he cannot go into the territory. As Mr. Frawley says, the Imperial has tanks and places out at Eckville and they would sell at the Eckville price.

Q That assumes, which may be the case, that Benalto is in the Eckville territory instead of the Sylvan Lake or Red Deer territory?

A It is in the Eckville territory.

Q THE CHAIRMAN: All we want to know is if you had a station at Eckville yourself would you still deliver from Red Deer at the Red Deer price, or would you not have a price at Eckville comparable with, and in fact precisely the same as the Imperial or the B.A. price, as the case may be, if they had a station at Eckville?

A If we had a station at Eckville we would no doubt establish an Eckville price. It does not necessarily follow we would sell at that price, on the different products. Then that is what I say, at points like that, if you would like me to submit later to you----

Q If they have a station, either the B. A. or the Imperial, which you say may be expected to be the same where they have stations and you have not, you may bring in some from some nearby bulk station at less, and sell it at a lesser price than they are selling?

A Yes.

Q But where you have a station and they have a station, then your station price will be the same as their station price as I understand you?

A Not always.

Q Would you come in from Red Deer to Eckville as against an agent at Eckville of your own?

A No, but the agent at Eckville could go out against the other price structure of the Imperial and the B. A.

Q Can you show us an instance like that where you have a plant and the Imperial or the B. A. have a station and you are selling under them?

A Yes. I will be prepared to submit those to you later on. I misunderstood His Lordship when I took these slips off before to establish what we did in regard to this. Now, then on the other I also will get the slips to show that.

Q MR. HELMAN: Unquestionably there can be no question it is a substantial saving to the consumer, whatever else it may show or may not show. It does show a saving to the consumer by reason of this competition.

G. A. MacKenzie.

MR. COMMISSIONER LIPSETT: Take the case of the company in Red Deer. Take the B.A. or some other company that has a station in Red Deer and one at Eckville. Would not that particular company do exactly the same thing for the Benalto Company?

THE CHAIRMAN: You are talking about delivery to Eckville, aren't you?

A Yes.

Q To the Benalto Co-Op?

A Yes, that is the name of it.

MR. COMMISSIONER LIPSETT: It is not in Benalto then?

A No, it is at Eckville. If you would like me to submit the other slips, at the same town we operate at, I will be glad to do it.

Q I was just trying to get the point clear.

A That just happens to be the name of it.

Q THE CHAIRMAN: What we are exploring is the actuality of competition by jobbers with major companies and anything you think will help to show that we will be glad to receive. Mr. Helman continuously makes the point it is a saving to the consumer. Perhaps it is a saving to the consumer that the major companies absorb the rent. What I want to know is whether you have stations all together in the same town if it be known for you to undersell the major companies and you say it is and you have slips to show that. I could conceive of an agent in Red Deer in order to get into somebody else's territory, providing it was not a territory of another agent of his own company, giving free delivery at Eckville or anywhere else, without major companies interfering. But I would like an instance of where in the

same town where you have a station and they have a station you are underselling them without taking the risk of a price war.

A That is right, we will do that.

Q MR. FRAWLEY: I have just one question to ask you. I see a slip here to show that your agent at Taber on the 24th of May, 1939, sold to George Webb at Retlaw 45 gallons of Red Head gasoline at 18.3. That certainly is the Imperial posted price at Taber, and 19.1 is the Imperial posted price at Retlaw. It is just one more of these instances. What happened there is that your agent at Taber sold this gasoline at 18.3 and your company got 18.3 and then Mr. Bullock, your agent at Taber, hauled it from whatever that distance is, and it looks like, perhaps, 15 or 20 miles maybe from Taber to Retlaw, and he delivered it to this man at Retlaw presumably if there was actual delivery, and that came out of his 2 cents commission?

A Yes.

Q You got your 18.3. So if there is a benefit to the consumer, as Mr. Helman points out, it is the agent at Taber who is doing it?

A Oh, no, it is not. Did not the farmer get his gasoline at a cent less?

Q I say if there is a benefit to the consumer, and there would appear to be?

A The consumer got it.

Q The consumer got it, yes, but he got it out of Bullock, the agent at Taber?

A Well, that is all right. It is the policy which the company has that the consumer gets a better price structure in that

way. That is not the policy of the other companies, as you know. It is the policy of our company.

Q Let us see where it really abides. It really means Mr. Bullock, we will say, wisely or foolishly feels he can haul it out these miles from Taber to Retlaw out of his 2 cents commission. He, perhaps, does not have much commission left and he may spend the whole 2 cents bringing it out there. But Bullock does the paying. The Great West Distributors get the 18.3 and they do not care whether Mr. Bullock trucks it to Timbuctoo or Retlaw, is that not so?

A He can do what he likes on that.

MR. HELMAN: But we get the 18.3 instead of the Retlaw price.

Q MR. FRAWLEY: You have no station at Retlaw?

A All the point I am making there is I am showing here that we do not follow the tank waggon established prices of the Imperial Oil or the British American Oil Company at different places in this Province.

Q There are quite a few of these at Benalto and at Eckville and it does seem, Mr. MacKenzie, that all I have looked at are the same, the Benalto Co-Op for different individuals apparently belingong to that Co-Op. I do not know, but I would like to have it explored.

A I just took this list. I asked them to go through it at random and take out some. It shows the places which the other companies are operating. But I will be pleased to supply you later if you want to put a time on it, and I will do that as long as it is within reason, to show that the same conditions exist in many places where these companies all operate within the same place.

Q Speaking of that, certainly I do not want to be a burden on you and I must not impose on you, but it would certainly help very much if you could start your staff into these things and get some out and, perhaps, not all you would like, but if you would file some, and supply them to the Commission to-morrow?

A It is rather fast, but I will try and have some for you to-morrow.

Q The only thing is we may finish to-morrow for the present.

A Well, in case you do finish to-morrow, could not I submit them later. I would not like to say here is a point and here is a point , but I would like to go through our organization and put a fair proposition up to you and show the conditions which you say do not exist.

Q We must not rush you to the point of you not doing a fair job as far as your own company is concerned.

A What I suggest to you, Mr. Frawley, is, as His Lordship said the other day, there are only 16 slips presented and will you present some more. If I came back this afternoon I may have only a few but if I come back later and put them all in it will be more convincing.

MR. FRAWLEY: I am in the hands of the Commission about that. It is like all the evidence, it is of more value, in my submission, if it has had the benefit of an analysis by the experts. But on the other hand, we cannot unduly press Mr. MacKenzie.

THE CHAIRMAN: Cannot Mr. MacKenzie come in sometime to-morrow with what he has and then he should certainly be allowed to add to them whatever else he can find and, perhaps, do that at a later time.

MR. FRAWLEY: Well, thanks, Mr. MacKenzie.

THE CHAIRMAN: If that is acceptable to you?

A Yes.

Q Was there something else you had prepared other than to answer these marketing questions?

(Page 12,858 follows.)

Q Now Mr. MacKenzie, was there something else you were asked to file?

A Well you asked me to illustrate the matter of the British American Oil Company whether we were free to purchase elsewhere up to a certain gallonage.

Q Yes?

A And in doing that may I read this----

Q THE CHAIRMAN: The contract went in?

A Yes, and you asked me to pick out, as to this gallonage all that part------

Q MR. FRAWLEY: You are reading now from your contract with the British American which has been filed as an Exhibit?

A Yes.

Q MR. HELLMAN: You prepared a statement about it?

A Yes.

Q It is really a statement and you are referring to, you are dealing with the contract you have with the British American?

A Yes.

Q And you are making certain observations about it?

A Yes.

Q You might read it?

A

RE PETROLEUM PRODUCTS ACCORDING TO OUR CONTRACT WITH THE BRITISH AMERICAN OIL COMPANY LIMITED AS PER SCHEDULE "A".

We are attaching hereto list showing the various products which we have purchased from The British American Oil Company, Limited, during 1938, which totals 5,578,494 gallons.

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We are also showing on the same sheet our increases on Ethyl Gasoline and on Red Head Gasoline "Q" Brand for the first six months' period of this year in comparison with that of the business which we did in 1938. On Ethyl Gasoline, we have an increase of 41.59% and on Red Head Gasoline an increase of 17.05%. The increase on both products combined totals 196,874 gallons and the percentage increase on both products is 20.81%.

1. Our contract with the British American Oil Company Limited calls for them to supply to us 2,500,000 gallons of Ethyl Gasoline and Red Head "Q" Brand Gasoline per year. Last year on both these products you will note our gallonage taken from them was 2,459,320 gallons; and if our sales do not increase any greater during the balance of the year than they have now -- but we have every reason to believe they will -- and taking that as a figure, it would mean that beyond the contract which we have with the British American Oil Company, Limited, we would have 471,104 gallons which we could either place with them or with some other Company.

2. Our contract calls for Tractor Gasoline and Turner Valley Gasoline but only one product is now being supplied to us, that is, since our contract was made, namely Turner Valley Gasoline, which calls for 1,500,000 gallons per year that they are to supply to us. We find that in 1938 we purchased from the British American Oil Company Limited 2,370,542 gallons which gave us an option of purchasing from them or elsewhere -- 870,542 gallons of Turner Valley Gasoline.

We have not taken the figures on the Turner Valley Gasoline for this year but we expect we will have at least -- 1,500,000 additional gallons to place with the British American Oil Company, Limited, or with some other Company beyond our contract.

3. On the other fuels set forth in our contract, we also believe that additional gallonage beyond that as agreed to be supplied to us will be approximately on the same basis.

Now I might mention unless you want me to read this, that I have shown the different values which we purchased from them last year and how we have arrived at this.

Q I think we might file that as a memorandum dealing with that particular point?

(STATEMENT PRODUCED BY WITNESS HERE MARKED AS EXHIBIT "563").

MR. HEIMAN: That is all them except the answers to the questions, of Dr. Frey.

Q MR. FRAWLEY: Have you a statement now showing the physical set-up of your company, number of stations and so on and the amount of gallonage?

A Yes we have all that here.

Q You have put that all into one memorandum?

A Yes, I have answered his questions.

THE CHAIRMAN; Just a moment, Exhibit "563" might be entitled what?

MR. FRAWLEY: Statement concerning the products according to the Great West contract with the

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British American Oil,Company, Limited. I suppose it might be called a memorandum with respect to the limitations on the contract between the Great West and the British American Oil Company?

WITNESS: That is the whole thing.

Q MR. FRAWLEY: Now Mr. MacKenzie produces in answer to my questionnaire to him a statement showing the physical set-up of his company and the gallonage in 1930, he supplies a statement showing the office buildings, where the main stations are, the number of bulk stations, 99, the number of warehouse agencies 41, number of company owned service stations 13, and so on, as appears on the statement; he also attaches to this statement a statement showing the sales of the principal products in 1938, gasoline 3,063,82 gallons; Turner Valley Naphtha, refined oil, distillate and so.

THE CHAIRMAN: The physcial assets, and sales.

MR. FRAWLEY: Physical assets, sales and seasonable trends of white products as it is called, showing for example that in the month of September his company sold 14.09% and in October 12.26% as against what example in January 2.56%.

THE CHAIRMAN: All right, that will be Exhibit "564".

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "564").

Q MR. FRAWLEY: Now Mr. MacKenzie, did you give assistance in the financing of trucks of commission

agents?

A Do you want me to read this answer.

Q Yes, read if it you have prepared an answer?

A Yes.

We have only a few instances where agents require assistance and when this is required we advance not more than 25% of the cash payment as against the value of the truck in our opinion and the payments extending over a period of 12 months. Now that is what I mean, the value of the truck, we will have a man value that truck.

Q And that is the way you do it?

A That is the way we do that.

THE CHAIRMAN: Are you filing that?

MR. FRAWLEY: I do not think so, Mr. Chairman. I would be glad to file it. What Mr. MacKenzie has done with the questionnaire, he has set down the question and the answer. It certainly----

THE CHAIRMAN: Why not file it and then go through it and examine upon it.

MR. FRAWLEY: All right.

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "565").

Q MR. FRAWLEY: Now Exhibit "565" could be described, Mr. Chairman, as the answers to the questions submitted by me to Mr. MacKenzie at the suggestion of Dr. Frey.

Q Well that first one has been disposed of. Now what arrangement has your company for handling commercial consumer accounts, does it lend equipment; on what basis are prices

established to commercial consumers?

A We do not loan equipment but make an allowance of 1 cent per gallon below our established tank waggon price.

Q Now let me ask you, Mr. MacKenzie, you feel it is right and proper to allow these commercial consumers 100% tank waggon price, the same as you charge the retailers?

A If they have their own equipment, yes; they have the investment in it and establish their pumps and their tanks and take in quantities of that nature.

Q Then you say it does not matter whether they are a consumer or whether they are retailing as a means of livelihood, that does notmake any difference to you?

A No.

Q You do not give it to them, to be used by them, by loaning them equipment or selling them equipment below cost or anything like that?

A No we do not do that.

Q You do sell equipment, do you not?

A Yes.

Q But you say you are paid in the ordinary way, it is a strict business proposition with you, that when you sell equipment to a commercial consumer?

A We sell it and if they do not pay us cash for it we take a lien note on the equipment.

Q You lose the account pretty well, you feel you have no hold on the account after the last payment is completed?

A That is right.

Q Now what is the answer of your company to the question, what is the attitude of your company towards the steel barrel situation, does it have any suggestion concerning

the solution of that problem?

A Well I have made an answer to that and I am going to read it and I was thinking afterwards that I should have gone a little further but I will read this.

It is our opinion that steel barrels should be sold to the purchaser at a nominal figure of say $4.00 each, that is, steel barrels which the oil companies now have on hand that are in good condition and that thereafter, the purchasers of petroleum products should obtain their own steel barrels.

Our reason for this is that so many of the consumers or others use our barrels and also other companies' barrels in taking their products from Montana.

My reason for suggesting a price of $4.00 is on account of the necessity of greatly depreciating drums from our financial statement and the recovery of that price as suggested would go a long way in straightening up the situation and also more products would be used from Alberta and not taken from Montana.

In reality the Company would not realize more than $3.50 for each steel barrel on this basis as it would cost approximately 50 cents per barrel to have it picked up so same could be re-sold.

Q Now have you anything to add to that----

Q THE CHAIRMAN: You say you should have gone further, what do you mean by that?

A Well I might have gone further than that and say well here even if that was done, that the oil companies might

give to the man that we have divorced our capital investment from, some consideration in having his own equipment in the way of a price structure.

Q MR. HELMAN: You mean you would give the man who owns his own drums a discount?

A An advantage of some nature for that investment. I might say, your Lordship, that the point that I was trying to do was this, we may have drums at one place and other companies have the same; well then the man will come and he will take our drums or take any person's drums and he goes over to Montana, he might pick up crude oil or different commodities that are not clean but are dirty and when you pick up your own drums, it is of very little value to you until you go to the expense of steaming it and when that is done again and put on the farm, it is again picked up and taken and none of these people have very little capital expenditures put into that and nothing has been done about it. I have taken the matter up myself with the oil companies and suggested a proposition of this nature to them and I think something along that line would be agreeable but I do not know, they seem to be afraid to act or do anything on it and it would greatly, if an arrangement of that kind were done where the man owned his own drums and he knew it was his, he is not going over to Montana and other places for his products because the other man is not generally going to lend his drum unless they get together in a community and pick sufficient drums up to take over.

MR. FRAWLEY: All right, now Mr. MacKenzie---

Q MAJOR LIPSETT: You think perhaps the farmer, if you were charging $4.00 for the drum that he should be allowed to pay for it out of his gasoline in the same way that a man repays for a pump?

A Well it might be worked out. We would be agreeable to something along that line. We would account for the drums and understand we would take quite a loss, I believe the cost of a galvanized drum is about $8.40 in Calgary today. Well that was the price until there was a company in Eastern Canada came in, made a rail and lake shipment and I believe the cost has got down a little less than that. Now in the first place, take our own statement of last year, we have a depreciation of over $52,000 that we have depreciated on drums, trying to account for things of this kind and no doubt the other oil companies are in the same position, so the idea of selling a drum at this price is really a bargain to the farmer to buy it or really any consumer.

Q MR. FRAWLEY: Mr. MacKenzie, what is your company's estimate per gallon of tank truck haulage, both long and short haul, assuming long haul to be more than 50 miles?

A Well taking Red Deer as an illustration---

Q MR. FRAWLEY: Taking Didsbury as an illustration?

A Taking Didsbury as an illustration which is 48 miles from Calgary, our cost of handling one gallon is 1.44 cents. On a long haul as from Calgary to Edmonton which is 194 miles our cost is 2.81 cents per gallon. The

above rates are that which we pay to contract truckers; by using our own equipment the approximate prices would apply as to Didsbury $1.30; Edmonton $2.53.

I am taking the difference between the contract price and what our own cost would be.

Q Elaborate on third party leases, the number, rents paid and rents received; also same for company's licenses; what is the advantage to the company of third party and cross leases. What is the advantage to the dealer; is not the principal reason for either to keep out competitors, and your answer is?

A We do not believe we have outlets on this basis. If we have we shall be pleased to advise you later. We could not find any.

Q You do not own any service stations?

A Oh yes.

Q Well then those that you own you operate simply through salaried employees?

A Possibly I did not understand the question clearly then.

Q I will ask you then, just forget about the question?

A Yes.

Q I will examine on it, you do operate service stations and how do you operate them?

A Well some of the stations we charge a nominal rent per month.

Q That is as between you and the operator?

A Yes.

Q But as between you and the owner you have to pay real rent I suppose?

A Well the owner, we rent some stations from the owners, yes.

Q That is what I want, Mr. MacKenzie and would you be good enough to prepare a schedule showing the stations---

A I misunderstood the question.

Q The stations that you operate, what you pay the owner and what you get and what the difference is?

A That is right.

Q I will ask you now about it. Assuming in some instance we will find that you are paying more out to the owner than you are getting from the operator?

A Yes.

Q You regard that as good business?

A We do where we have instances of that kind on account of the volume of business we obtain from the station.

Q Then you regard that difference between what you have to pay out and what you get from your operator as a marketing expense?

A Yes.

Q You do not think that you are maintaining unnecessary duplication of service stations by that practice?

A I do not think so.

Q If you did not do that what would happen, if you insisted, in other words, on collecting from these operators a full amount and maybe something more, putting yourself in the position of a landlord?

A We have to take into consideration what we figure it would cost us approximately, the capital investment in the station and we naturally have to have outlets for our products and we figure on,approximately on a basis

of that nature.

Q Yes, to what extent does your company finance dealers who do not rent property owned stations, in other words just the ordinary dealer, just the ordinary place where you have an account, a garage or some place to handle your products, do you go there and give him money to paint up his premises?

A Very seldom that is done with us.

Q How much money have you got unpaid for that, do you think?

A I would have to look that up. The only thing we would finance dealers would be with pump equipment.

Q Yes.

A We would not finance dealers otherwise.

Q You would not for the sake of giving a man, would not modernize the station sometimes to give him a better outlook?

A We have done that.

Q Without charging the dealer?

A But as I understand the Act now, we cannot do that and since that time we have discontinued that kind of operation.

Q Apart from the Act what are your views about that, do you think an oil company should be permitted to spend money on an account, no ownership interest at all, just on an account of modernizing a station, cleaning it up, perhaps renovating it and so on?

A No, my opinion is that it should be charged to the party if he wants it done.

Q Does your company have any plan for annuities, insurance

or sick benefits for employees, if so the extent to which these are developed?

A We pay full salary to anyone in our employ who has been with us for one year, for a period of six months should they be sick. Up to a period prior to a year, we have always so far paid them their full salary until they returned to work. That is as far as we have gone on that. We have not done anything else.

Q Now the next question is, you have no service station supervisor?

A No, we do not have any service station supervisors but our auditors look after this when on the territory.

Q Do those auditors then, in case they may be discharging these duties, do they interfere at all with the independent operation of the dealer?

A Oh no, no.

Q The next question you see, the next question, it deals with the item of publicity, local and dealer service, in the Texaco Company's statements it showed they spent in 1937, $417.43 and in 1936, $2,496.00, you have no answer to make about it?

A No sir, we are not familiar with this question.

Q What would be the idea of your company in the matter of absorbing all rents and taxes of the service station operator, that is, making the company nothing but landlord?

A Well it is necessary to have a minimum return on capital invested. Unless this was done, we are of the opinion that the agent in the station would pay little attention to looking after the property properly, that is what I

have answered to that.

Q You do not think in the oil business you should take the same position as the man who rents a house to a man to live in?

A No.

Q Now what is the answer of your company towards fixing the dealer margin and if you think it should be fixed, then what margin?

A We are not in favour of fixing a dealer margin for retail pump outlets but suggest the price we sell at to the dealer and he should be free to sell at whatever price he desires.

Q Now that is still dealing with dealer margins. I want to call your attention just briefly to a schedule in the Texas case where they set out a number of dealer margins and which indicates that the margin for instance in Chicago where the gallonage must be enormous is 5.3 cents as against the Calgary margin of 4 cents, as Mr. Meltabarger has it, but it is really 4½ cents, that is perhaps as good an example as any, Butte, Montana, 5.4, Los Angeles 4.8, as against our 4½, with those figures in mind, what explanation have you to offer for this deviation?

A That the margin is smaller here.

Q Yes, that the margin would appear to be smaller here?

A We have a small territory that we operate in, not so many motorists and equipment and therefore our competition is much keener here.

Q Yes. Have you any credit card service?

A No we have not.

Q Are your commission rates to bulk plant operators the

same, over the last page, are your commission rates to bulk plant operators the same and if not, why not?

A All but service station operators receive the same commission, but where an agent operates his own truck he receives a further commission depending entirely on his volume as he obtains the products from our plant and saves us the additional expense of delivery,

Q Does your company feel that distribution of gasoline through service stations is sufficiently adequate to justify no further licenses by the Province?

A We believe that for better service for the consumers and for increased gallonage in the Province, the number of outlets should not be limited.

MR. FRAWLEY: That is right, thank you very much, Mr. MacKenzie.

THE CHAIRMAN: What about undivided dealers?

Q MR. FRAWLEY: What are your views as to the propriety of these contracts of giving a man who is an undivided dealer a special discount of 1 cent?

A That is where the man is handling one product.

Q One product, one company's product alone. You, I,suppose follow that practice like the rest of them?

A Yes, but we have the contract, that, we do not follow that altogether, if a man has a pump account we will allow a cent off. He doesn't have to be 100% to us.

Q That is very interesting.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: I was told that that was so but you are the first man who has ever made a plain

statement upon it, certainly under oath in the witness box, you say, well take one in the City of Calgary to be concrete which was mentioned before, the Maclin Motors?

A Yes.

Q Has a garage?

A Yes.

Q With curb pumps?

A Yes.

Q And you have some of them?

A Yes.

Q But you have not got them all?

A No.

Q Maclin Motors pays you for Red Head Gasoline then in the City of Calgary 16½ cents less 1, 15½ cents?

A Correct. We will sell to anybody in Calgary on that basis.

Q You say you would?

A Yes, we would, that has pumps.

Q Let us assume, and I think it is so, that the Imperial also has a pump at that outlet?

A Yes.

Q Do you, I suppose you do not know, do you know whether or not the Imperial charges that account 16½ cents for Three-Star or 15½?

A Well I know Mr. McCullough but I do not know what Mr. McCullough is buying at but I would imagine he is getting the extra cent.

Q You see that is as I recall now, that that is the suggestion that I made to the major companies in a way

perhaps, just as a suggestion, I am not sure whether I did or not, but anyway you say that is your practice and you would think , you would be surprised if a man who is getting 15½ cents from you was paying 16½ cents to the Imperial or the British American or whoever had the other outlets?

A Yes, and I will go further, I think there are, I think through our basis or policy on that it is another illustration where the jobber makes the major oil companies do that very same thing as time goes on.

Q That means of course there is no weapon, you do not hold any weapon over the dealer to get his account wholly into your hands?

A Well we will make a contract with the dealer and for instance we supply him equipment and otherwise and we say "Here now in consideration of us doing these things of course you agree to give us your business and we will give you a cent a gallon below the established tank waggon price", but those dealers come along and this thing gets paid up and everybody solicits him for it but it has been the policy and still is of course from any of the companies to have an extension of that contract which in many instances, if the dealer does not advise the oil company, then that contract automatically goes, oh,possibly for another five years, which the dealer has forgotten about and naturally the oil companies try to hold them to that and that is the idea of trying to get additional sales but with us we do not follow that policy very much.

Q I see there are some new electric pumps going in there

at the Maclin, marked "Red Head"?

A Yes.

Q You are not giving them those pumps?

A No sir, they never even asked us for anything.

Q You are selling them those pumps?

A No we are not. He is buying them direct I believe from the Wayne people who manufactures the pump.

Q And he owns them?

A That is my understanding.

Q So that he can take out the Red Head sign and put in Three-Star?

A Yes.

Q Any time he likes?

A Yes, we have no contract with the Maclin Motors at all. We have supplied them with gasoline for a number of years and the account has been very satisfactory to us and it has gone on.

Q And that goes for all dealers, so that frankly we can take it plainly that the divided and undivided dealers get the A. B. A. price from you?

A They will.

Q And do?

A Yes.

Q THE CHAIRMAN: Get what price?

A The A. B. A.?

Q The A. B. A., what is that?

Q MR. FRAWLEY: What does A. B. A. mean?

A It is a contract as made between the oil companies and the dealers and it is a contract for all his products and he receives 1 cent a gallon below.

MR. HELMAN: Authorized Buyer's Agreement.

Q MR. FRAWLEY: Yes, Authorized Buyer's Agreement. He is authorized to buy the company's products, but you go a little further than that?

A I have read of some of the other companies' contracts and they go and say "Buy this", "You buy your products on this contract and we will give you a further cent", "You buy tractor fuel from me on this contract and we will give you a further cent", the same as on gasoline but we of course will not do that but we will take the open market on it and decide as to what we will do or whatever is best. They both have their advantages.

MUNROE: May I ask a question.

MR. FRAWLEY: Yes.

Q MUNROE: Mr. MacKenzie, I would like to ask a question.

THE CHAIRMAN: Who is this.

MR. FRAWLEY: Mr. Munroe.

Q MR. MUNROE: What is the reason for your increase in leaded products or "Q" Brand Gasoline last year over 1937, what would you say was the reason for this increase?

A Well I presume you had a general increase in the Province and high pressure engines coming in----

Q Well do you think it has anything to do with the price being cut on Three-Star Gasoline early last Spring, a year ago , did that have anything to do with it?

A I do not think so, no.

Q You figure that it is just the high pressure engines

coming in?

A Well for instance we market our products, are we not, you are not sitting down, but you go ahead on it and naturally we are going to go out and try and obtain business and create it. It is a hard question for me to say. I have not seen the gallonage from the Provincial Government as to what the general increase is in the Province or anything.

(Go to number 12,878)

G. A. MacKenzie

Q I notice that your increase, your big increase was the "Q" Brand gasoline over what it was a year ago, or that is two years ago, 1937?

A Yes.

Q And I would like to know whether it was because of the price on 3 Star and other leaded products, or do you think that it is just that the public wants more leaded products?

A No, I think as far as our experience goes, from my experience in the oil business - are you an oil man?

MR. FRAWLEY: The Munro Refinery?

A I did not know him. It has been that there have been so many of these products of so-called good products that are not economically so good value for the farmers to use in that much of their equipment and through our stations and through our plants we are trying to go out and get a better fuel for these people which I believe is a more economical fuel.

Q You think the public likes it at that price spread between the price of ordinary White gasoline compared with.....?

A For instance, you are in the oil business yourself, and you know from your experience - I am not asking you a question but I am giving this as an illustration - you know people come to you and say "How cheap can you sell us something -" and those people come to you and in our experience in the oil business they take a product from the refinery and they go to the man on the farm and they sell it to him and say "This is as good as Red Head" or something else, but unfortunately when the farmer comes to using these,

G. A. MacKenzie

I am not referring to your product, but these cheaper products, he becomes dissatisfied with it. It is not good fuel and something should be done to prevent that kind of thing. We are trying to build up the confidence of the people in the products that we sell. Possibly our increases in sales of these commodities is much larger than anyone else's in Alberta.

Q You know there is an increase in this kind of fuels?

MR. FRAWLEY: What Mr. Munro needs is an Ethyl contract?

A Yes.

Q MR. MUNRO: That is the point I was trying to bring out is that the oil companies have shown a tremendous increase in the sales of Ethylized products?

A Yes.

Q During the last few years?

A Yes.

Q And I was wondering whether you felt that the cause of this increase was due to the fact that the major companies took the price say of their 3 Star down to within very close to their White gasoline, and the people figured that they might as well go ahead and buy that gasoline? I was wondering if that is the way that most of your customers looked at it too?

A I do not think so, Mr. Munro. That is my opinion of it. You know as a refinery man and a marketer of petroleum products that you cannot go to work and take heavy distillate and absorption gasoline and maybe both of them products is White, and say it is just as good as MacKanzie

is selling and you put those two out in the sun for a while and the heavy ends go to the bottom and the light ends come to the top, and unless the farmer keeps dumping his drum over, he gets an unsatisfactory fuel. I think the farmers have had a lot of that and that is one of the points that we are trying to do is to keep up the quality of our products. If a man comes to us and wants to buy we will say there is absorption gasoline and tractor fuel and if he wants to mix them, he can do ahead and do it, but we tell him to do it himself.

Q We will take Premier gasoline four years ago, and was it not a product of that nature?

A Of what nature?

Q It was not so much absorption naphtha and so much Diesel fuel?

A You are talking about the Imperial Oil's Premier?

Q Yes. That did not contain any Ethyl fluid at that time?

A Three or four years ago?

Q Yes, until they changed the name to 3 Star?

A I cannot speak from memory.

MR. FRAWLEY:- Premier gasoline is still
MR. MUNRO:
made but it does not contain Ethyl fluid.

MR. MUNRO: That is the old Premier before they brought out the 3 Star.

MR. FRAWLEY: Yes?

The Imperial can manufacture better White gasoline than what they are manufacturing today, but they are encouraging more of these Ethylized products today than what they did before.

G. A. MacKenzie

MR. FRAWLEY: Just so you will be sure on that, they do make Premier gasoline but nobody knows about it. They make it for a special market.

MR. MUNRO: Is the Premier gasoline that they make today what they made two or three years ago?

MR. FRAWLEY: Yes. They have three or four customers for it. But your point is that they are pushing the Ethylized products?

MR. MUNRO: Yes.

Q THE CHAIRMAN: What were you saying about mixing that should be stopped? Just enlarge on that, if you please?

A A lot of people whom we call peddlers.

MR. HALMAN: Different from jobbers.

A Might go to Turner Valley as an illustration and they may buy some heavy distillate and they may buy some naphtha and they will mix these two products together and take and sell them to the farmer as a good gasoline or something of that nature, and as these are held in a container for some time, the heavy ends go to the bottom and the light ends come to the top. Another thing, may I suggest, My Lord, is this.....

Q How do you go about stopping that, by standardization?

A Standardization.

Q A minimum of the octane. What would be your solution?

A Octane of a definite defined specification. In another instance a man might come along from Montana and he will take a cheap white gasoline over and he will truck it into Alberta and dye does not cost much money and he can get a

G. A, MacKenzie

red color or a green color, standard gasoline today is more or less recognized as green, and so this man comes and he says "I will sell you a green gasoline at so much," and the farmer or dealer thinks he is getting good gasoline, first grade gasoline, and instead of that he is not.

Q That is what I thought you meant?

A Yes.

Q That comes down to this that you believe there should be Government intervention setting up standards?

A I do.

Q That is a minimum, to comply with the minimum spedifications, and let competition as between individual companies have its sway over and above that minimum?

A Yes. That is right. So that it will be protected. Absolutely I favor that.

Q It is interesting to have your views and I meant to ask the Witness Doty as to that but I did not. Is he in the city, do you know?

MR. FRAWLEY: Yes, I imagine he still is.

THE CHAIRMAN: I would like to have his views on that before he leaves for California. He is a man of some experience.

MR. FRAWLEY: Yes.

THE CHAIRMAN: Anything further from Mr. MacKenzie?

MR. FRAWLEY: No, that is all.

THE CHAIRMAN: Any questions, gentlemen? That will be all, thank you, Mr. MacKenzie. You are going

to bring back something tomorrow?

A Yes.

JOHN LESLIE MUNRO, recalled, testified as follows:

Q MR. FRAWLEY: Mr. Munro, you gave evidence before this Commission already when we were discussing the matter of the Royalite pipe-line rate?

A Yes.

Q So that you are still under oath. You do not need to be sworn again?

A Yes.

Q You are here today to present a statement on behalf of your company on refining conditions and marketing conditions insofar as they affect your company?

A Yes.

Q Is this the brief which you have prepared to submit to the Commission?

A Yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "566")

Q THE CHAIRMAN: What is the name of your refinery again, Mr.Munro?

A The Monarch Refinery.

Q MR. FRAWLEY: Yes, Mr. Munro, I think you had just better proceed and read your brief and there may be some questions arising out of it.

Q TETRA-ETHYL LEAD.

Ethyl fluid is to be available in any quantity to independent refiners for the manufacture of non-knock gasolines, which could be sold under Independents own name, or if sold to dealers and jobbers they in turn

J. L. Munro

be free to place their own trade name on same.

Independent Refiners should be permitted to use as much or little Ethyl fluid as they require.

The rules and regulations for handling same, both in manufacturing and in sales, in order to guard the public safety, should be laid down by the Alberta Government.

If this product is not available to Independents, same should be barred from sale in this province, either in fluid form or gasoline.

.....

The reason Ethyl Fluid ahould be available to all refiners, is that the major companies are the only ones manufacturing leaded products, and the major companies will not sell their leaded products to Independent refiners at a price where Independents can compete and make a profit against Montana leaded products. That is both leaded products and cracked products, that should be there.

The Independents are compelled to sell their gasoline at greatly reduced prices, whereas otherwise a few drops of Ethyl to the barrel of gasoline would enable the Independent to receive from four to six cents per gallon over the straight-run gasoline.

On the other hand at the present time, thousands of barrels annually are coming into the province from Montana to supply the Independent market. This situation is not only affecting the Independent Refiner, but is also doing the Turner Valley crude producer out of

J. L. Munro

selling thousands of barrels of crude. In view of this situation, it is possible for the major companies to cut the price of leaded products to such an extent, that it would be an impossibility for the independent to compete with straight-run gasoline.

Only refiners should be allowed to use Ethyl Lead, due to the fact of the dangerous condition surrounding it, and in view of this the Provincial Government should set forth reasonable regulations concerning same. All r finers should be able to purchase Ethyl fluid at the same prices as major companies, in any quantity from one gallon to whatever amount they require. Storage facilities in Calgary should be set up to enable this.

We do not feel that the people of Alberta should be dictated to by the Ethyl Corporation or the United States Government in the handling of Ethyl fluid, and that the small independent refinery should be allowed to blend Ethyl fluid with gasoline without being required to instal elaborate equipment to handle same, as there is no reason why the small refiner could not take a small amount of Ethyl fluid, draw it through a circulating line and circulate it just as safely as can be done by the elaborate set-up that is now demanded by the Ethyl Corporation. If the above mentioned cannot be complied with, then the price of Ethyl gasoline or gasoline containing Ethyl fluid, should be increased in price another four cents per gallon or else barred completely for sale in Alberta.

I might say here that I made most of this up before the Commission began to sit, but I will read it all over again if you wish.

J. L Munro

THE CHAIRMAN:- If you please.

A TURNER VALLEY CRUDE.

Crude from Turner Valley should be available to all independent refiners in any quantity of average crude at field prices, without being under contract, and be abl- to take delivery of same at the well head if desired, or at the Royalite Oil Pipe-line at Calgary. All companies should be compelled to pay posted field prices and be able to take of this commodity at any time during the twenty-four hours providing a notice is giv n in advance of two hours previous to start hauling.

The reason we should have crude from Turner Valley, is because at the present time there are only two or three wells that are not owned or controlled by the major companies, and these few wells being under proration make their allowable, less than the independents requirements.

I believe that is down to 1. I said two or three wells, but I believe there is only one that is not contracted for or tied up. I was not sure about that so I just put two or three.

MR. FRAWLEY: Well, no, not very many anyway.

A The reason that the independent is unable to contract, is because their requirements vary, and at certain times of the year the demand is greater than others, also at times requirements are practically nil. The reason that we cannot take delivery of crude from the Royalite Pipe-line, is because they do not load anything but tank-cars, which would run the cost of crude much higher, owing to the fact that there would be two freight rates, the pipe-line rate, and also the Railway

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Tank-car rate for a short haul. If the Royalite would load tank-trucks at pipe-line destination at any time, this would greatly simplify matters. If we could take delivery at the well-head of what we figure is of an average crude at any time during the night or day quantities guaged by Government stamped tank-trucks, it would mean that it could be handled by one handling charge.

The reason why all refiners should pay posted field prices is because we feel that there is a possibility of some refineries cutting the prices of their finished products on account of being able to buy crude at reduced prices.

All crude of 43 gravity should not exceed $1.00 per barrel in order to compete against foreign crude coming into the province.

In view of this situation it should be ruled that no crude producer shall give a bonus of free crude or discounts of any nature in order to substitute a price reduction.

Q MR. FRAWLEY: Before you leave that question of crude, you wrote this some time ago?

A Yes.

Q Are you not aware that the Public Utilities Board in pursuance of a recommendation of this Commission has fixed a rate for loading into tank trucks, and have you approached the Royalite recently?

A No, we have not approached them on crude from this end, but I have never heard that they built up facilities to load tank trucks.

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Q You had not heard that?

A No. It was advised by the Commission that the Board of Public Utilities set up these but I have never heard that it has been done.

Q Perhaps they have not had anyone approach them for loading into tank trucks. Where do you get your crude now then?

A Well, we have got some from the National Pete and also from the Royalite Sterling Pacific wells in Turner Valley.

Q For 1939?

A Yes.

Q Direct from the Sterling Pacific wells?

A Well, it is the tank farm.

Q You truck in in from there yourself?

A Yes.

Q Do you find that more convenient than if you took it at this end from the pipe-line?

A I think it would be more convenient with the rates that are in effect if we could get our crude at this end.

Q Is it not better that you should go to this end of the pipe-line and take the posted field price plus 9½¢ and plus 2½¢ loading charge, than to go to the Sterling Pacific tank farm in Turner Valley and truck it in yourself?

A Well, if we could get the crude from this end that is economical to run through our plant.

Q I see you try.....?

A Last year the pipe-line crude was much lower. I have heard it is a higher gravity right now than it was last year.

Q What gravity do you get when you went to the Sterling Pacific tank farm?

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A I believe it was 47 gravity.

Q And when you got it from the National Pete, what gravity was that?

A I think it was about 43 or 44.

Q THE CHAIRMAN: What gravity do you want?

A I would like to get somewhere between 44 and 48 gravity if we could get it without paying too big a premium for it. It depends entirely on the recovery we can get from that crude.

Q MR. COMMISSIONER LIPSETT: Would not the pipe-line run be all right for you?

A Well, the way it was last Fall we enquired and there was not really a very great recovery of gasoline from the pipe-line run of crude. I believe it was around 42 gravity.

Q MR. FRAWLEY: Are you not all right if you stay with the Sterling Pacific, if you get the privilege to go to their tank farm at Turner Valley and buy it?

A Well, that we find is a blended crude and is also very light naphtha, even lighter than the ordinary naphtha.

Q It is a product, it is not crude?

A No, it is crude, but it appears to be spiked with absorption naphtha and that appears to bring it up to around 47 or 48 gravity. I believe it is nothing more than 42 gravity crude.

Q Do you pay for it on the basis of crude, as though it were crude

A Yes. I would not be sure about that. I think we do.

Q What gravity did you say again?

A I think it was about 47 gravity.

Q What do you pay $1.28?

A No, it is more than that. I would not say just what the price

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on that is. I was out in the country at the time that purchase was made. I did not look into it to see what it was.

Q In any event, you have not fully explored what you can get at the Calgary end of the pipe-line?

A No, I have not.

Q At the moment, the reason you have not been bothered is you feel the pipe-line run is a little low for you?

A Not only that, but I have never heard that we could load our trucks at this end.

Q But suppose that you could?

A We would be tempted to get it from this end of the pipe-line if we could get satisfactory crude.

Q MR. COMMISSIONER LIPSETT: How can you expect to hear if you do not go and ask?

A I guess maybe that is the proper thing to do.

Q It would seem obvious. There has been a statement from both of the major companies that they will supply crude oil to anybody that wants to buy it at the field price plus the handling charges and transportation charge. You cannot expect them to go after you to take some of it unless you ask for it?

A No, but everything else has been pretty well published in the paper that they have done and I felt that undoubtedly would be in too. That is the reason I have not bothered. I figured that they had not complied with your recommendations on it or we would have heard long before this that it was possible to get oil at this end.

THE CHAIRMAN: Well, before you make a submission, you had better go and ask and see what happens?

J. L. Munro

A Before we what.....

Q MR. FRAWLEY: Before you make a submission to the Commission as to what should be done?

A As I said before, this was prepared.....

THE CHAIRMAN: This was written before?

A This was written before the Commission really began to sit on this.

MR. FRAWLEY: The next matter is freight rates.

Q MR. COMMISSIONER LIPSETT: Just before you pass from that, Mr. Frawley, he has given as his opinion that the field price of crude of 43 gravity should be $1.00 per barrel. What are his grounds for coming to that conclusion?

A There seems to be a lot of cheap stuff coming in from across the line, and that should be the price to meet this competition that we are getting from the south on both refined products and crude coming in from the south. It is impossible for us to sell gasoline in the southern part of the province.

Q Have you any idea how that would affect the development of Turner Valley at all, whether it would stop development?

A I do not believe it would. I believe the increase in sales that they would get of crude would really be a benefit to the producer.

Q Do you think that $1.00 a barrel would have any effect of preventing this importation from Montana that you have been complaining of?

A I do not know whether it would cut it out..... It would not cut it out altogether, but it would mean that we could get our crude for less money and could stand a better chance of competing with the stuff coming in from Montana.

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Q I suppose the difficult competition from Montana really is the Texas Company, is it not?

A No, it is not only them. There are others that are bringing in gasoline from Montana. Probably that is bought through the Texas Company, I do not know about that but a lot of it is coming in there from the Big West Refinery and other plants down there.

Q You think that you have to compete with what is trucked in?

A Yes, it is mostly trucked in products that has, that the price is lower on than really what the Texas Company is selling it at but a lot of the stuff which is trucked in is bought through the Texas Company.

Q THE CHAIRMAN: Have you considered at all whether the Turner Valley producer could afford to give you crude at $1.00?

A Well we have been approached by Montana producers at far less than $1.00. We have been offered crude very much, well pretty nearly half that price. I think it runs ---

Q MR. FRAWLEY: Is it as high a gravity?

A No, not as high a gravity a crude as this is.

Q You cannot handle anything very good except the high gravity crude, can you?

A Well we can if the price on the lower gravity crude is low enough so that we can get proper recovery from it.

Q Yes, it is all the same, you have more bottoms but if you pay very, very much less it all comes out the same?

A Yes.

Q But where did you get, where were you quoted half?

A I am not just sure about the half, Mr. Frawley, of a dollar a barrel. It is somewhere between 50 cents and 75 cents a barrel.

Q What field?

A From Montana.

Q What field though, the Kevin-Sunburst?

A I believe it was Kevin-Sunburst.

Q What year?

A In the spring of last year.

Q In 1938?

A No, it would be 1937 would it not; it was either last spring or a year ago last spring. I can, we have the lists there from them that we can submit to the Commission if necessary.

Q You would not need much quantity though, a car now and then is all you would need?

A Well at the present time we do not need very much as we are just really getting started with our refinery you might say. We have not been in the business long enough to work our business up to such an extent that we could run 500 barrels 365 days a year. Nowhere approaching it.

Q MAJOR LIPSETT: Well, when you get the crude, your suggestion about being able to obtain the Ethyl to make a high grade product, what is your suggestion about that?

A Well the trouble in that is that, you take a year ago last spring, the Imperial Oil cut the price on their Three Star Gasoline, I would not be just sure on the cuts but they cut

it but they didn't cut the price of their White Gasoline. Now there have been several cuts in the price of gasoline in the last few years and they can continue to cut the price of leaded products like Three Star which contains some, a little Ethyl fluid, they can continue to cut that until it would be about the same price as the ordinary straight run gasoline which it would be impossible for us to compete against and that is the position we are in today; the price of leaded products has been cut and the white products have always been put up as the target and that is all we can manufacture in our plant is straight run gasoline, that is the highest quality product.

Q That is what you call the white product?

A Yes, it is a straight run gasoline not containing Ethyl fluid nor cracked.

Q THE CHAIRMAN: Do you believe that there is an advantage in the use of Ethyl fluid?

A Well the major companies, in fact all the big companies advertise and capitalize on knock as far as the gasoline is concerned; they leave it to the people to judge the gasoline by its anti-knock quality regardless of market or anything else. Knock is the one thing they are advertising on and nine out of every ten users of gasoline, the first thing when they get it in the car they see whether it knocks or not and if it knocks it is not as good a grade of gasoline as one that will not knock and whether it is, whether it is an advantage to the motorist, that is whether it is helpful to the motor or not I am not in a position to say but too much Ethyl fluid, I believe, is a detriment to the motor.

Q In other words, it is what the public demands and why should not the public get it cheaper?

A Yes, probably they should get it cheaper but we feel ----

Q You think the public should pay more just so that you may continue to sell third structure at a profit, I mean looking at it not from the standpoint only of your pocket-book but as we might from the standpoint of everybody, what is wrong with their reducing the price on tetraethyl fluid, that is gasoline treated with tetraethyl fluid or ethyl fluid?

A Well, up until a short time ago the independent refiner could not get Ethyl fluid, at least we have never applied for an Ethyl license but we have friends who are in the refinery business who have tried for some time in the past to get an Ethyl license. Now I understand this spring, there are two of those refineries who have been able to get an Ethyl license; now whether it is this Commission here or whether it is the Combines Act or what it is that is causing them to loosen up, I do not know but they have rules and regulations that a person must live up to in order to handle their Ethyl fluid and a small refinery cannot afford to put in the elaborate equipment which they claim that you must have in order to handle Ethyl fluid. I do not see any reason why, there are other chemicals which are just about as dangerous to man as Ethyl fluid is and there is not the restrictions on them that there is on Ethyl and it appears as though it was just put up in that way to discourage and keep the smaller refinery from getting Ethyl fluid and if

we could get it and if we could figure there was a warehouse facility set up here in Calgary with Ethyl fluid where we could come in and get a barrel or two barrels of Ethyl fluid, whatever we wanted, and come in and get whatever amount we needed in a tank and circulate that, we could then turn out a non-knock gasoline but at the present time with, with a lot of the refineries, a lot of the refineries did send in plans of their Ethyl plants but I guess they were just thrown in the waste paper basket. They never heard anything about it until they finally submitted everything just up to their specifications, which I do not believe is necessary for any plant. I realize it is a dangerous product to handle but I do not feel that people should have to put in these big expensive plants in order to mix a few gallons of Ethyl fluid to a few tanks of gasoline.

Q MAJOR LIPSETT: Would you be in a position to take the minimum quantity that the railway will take, that is 16 drums?

A No, I do not know what the cost of a barrel of Ethyl fluid is but I feel that if the Ethyl Corporation with the amount that they are selling here in Alberta, that they could well afford to put a warehouse up here and handle that so that the small refinery would not have to stock up with a lot of Ethyl fluid at one time.

Q Well that stocking up would practically have to be for you because all the others are getting it in carload lots?

A I do not believe they would get it in carload lots if it was available in smaller quantities. What would a drum of Ethyl fluid cost, what would that run into?

Q I can only speak from memory but I think a carload was 16 drums, around $1800.00, I do not know if I can remember the figure, I think perhaps $5,000.00, no, perhaps $1800.00, I am not quite sure, $1800.00 I think it was, is it your idea that the Government should in some way take over this and deliver Ethyl and make it available?

A To make warehouses available?

Q Yes.

A No, I think it is up to the Ethyl Corporation. If we went into a town to sell our products where we would do a fair business we would, we set up a warehouse there to handle our business, we would do that if we figured we could give better service. That is probably the thing we would do and they could bring the Ethyl fluid in here, in as big a carload as they can, whichever is the most economical and give the small refinery the benefit of that. Did you say 16 barrels?

Q 16 barrels.

A I think probably you could get 30 barrels in cheaper than you could 16.

Q No, and of course the larger companies take it in carload lots, do they not?

A Yes.

Q 16 barrels is the minimum quantity for a small outfit?

A Yes.

Q The reason for that being the railway cannot ship any other commodity with Ethyl in the same car?

A Yes.

Q But why do you think it would be reasonable to ask the Ethyl Company to set up a warehouse here for one or two

very small refineries?

A Well, if it was available where we did not have to stock up such a large amount I daresay that all the independent refineries would get their Ethyl products from that warehouse.

Q Have you gone into the question of whether your refinery could make Ethyl products?

A You mean if I have taken it up with the Ethyl Corporation?

Q Yes?

A No, I have not.

Q MR. FRAWLEY: Are you sure your base stock would be good enough to add the lead to?

A Yes, I believe it would be.

Q Sulphur all right?

A Well, we could lower our sulphur low enough to be satisfactory for it.

Q MAJOR LIPSETT: Did you go into the question of how much of an investment you would have to put in?

A No, just sizing up other refineries that have put in Ethyl plants and seeing what they were like and it did not look reasonable to me that all this expense should be put on for handling just nothing but blending ethyl fluid with your gasoline.

Q Did you read or hear the evidence of the Ethyl people while they were here?

A I read some of it in the papers.

Q And the fact that they discontinued the product for some months until they established all these safety devices?

A Well I understand, I do not know whether this is true or

not, but I understand the Ethyl fluid at one time when it was first brought out was just left in the service station and you went in and bought ten gallons of gasoline and they put in a small amount of Ethyl and your gasoline was Ethylized. I do not know how it was brought out originally but, well, there are none of these deadly poisons that should be handled in that way. If that is true it is no wonder there were a lot of lives lost with the use of it but if it is kept under, if we could come and get a barrel of it or five barrels of it, whatever the case might be, and take it out there and put it under lock and key where it was perfectly safe and the same pump that is used for treating can be used for circulating that Ethyl fluid just as well as another, instead of all concrete structures set up there to store a carload of Ethyl fluid and then you roll the drum over and suck out what Ethyl fluid you want, a barrel at a time and put it in the tank and circulate it.

Q MR. FRAWLEY: You do not think it is any more dangerous than that acid they shoot the wells with?

A I do not know what that acid is like but I believe there are other fluids maybe as deadly as the tetraethyl fluid which has not such restrictions on it as that and I do not feel that the Ethyl Corporation should be dictating to the people of Alberta or to the people of Canada either or to the United States Government. If it has something for sale I think it should be made available to everybody and I think this country is just as capable of setting up laws for its people's safety as they are. Is that regulation, Mr. Frawley, is that not, who sets that?

Q The Ethyl Gasoline Corporation sets them and they say they are prescribed for them by the United States Surgeon General. Well now, is there anything more?

Q MAJOR LIPSETT: They have a product, they are in the States and in this country and it is up to them whether they sell it or not. Do you recommend that the Government buy from them, I do not see how you suggest that they be ordered to handle it in this way?

A If they have a product for sale, is it not, I realize it has to be handled safely but I do not feel that building a place the size of this room with a solid concrete floor and that floor tipped in the centre and in one corner may be sitting a carload of barrels, maybe 16 barrels of Ethyl fluid, taking up all that room and then you go into the other corner, there is a pipe there to swing over and you run that pipe over to this barrel and you suck out the Ethyl fluid and the pump is sitting in another room altogether. I do not think that all that is necessary and then, of course, there is the two other rules there that are probably for keeping your clothes and the like of that in, which probably you do need something like that, putting your uniform on to keep that Ethyl fluid from, if a drop should get on your body, you can change your clothes and put on fresh clothes. If it gets on.

Q There must be something to it, must there not when the American railways will not let any other freight of any kind go into the car where this fluid is?

A Well, I do not know anything about how the railways handle it but there are other things that you can hardly ship with

take gasoline, I do not imagine they will allow sugar to be shipped in the same car that gasoline is shipped in and there are other things that, other poisonous chemicals which are dangerous to be shipped in that way. You take dynamite, I believe if you ordered a dozen sticks of dynamite and you were stationed at Medicine Hat and you ordered it from Calgary, I think you will find that they will ship you the dozen sticks of dynamite all down in one box car. They will not allow it to be shipped by express or any other way. I have heard that. Now I do not know whether that is true or not.

Q Well how do you think, from a practical point of view as you are situated at the present time, how can it be made available to you?

A I think if they had warehouse facilities here where we could stock up with a quantity, if we could come in here and get say one barrel or five barrels or ten barrels, whatever we wanted to get and take it out there and then put in, put it into our circulating line and circulate it through the tanks, we could have Ethyl gasoline.

Q THE CHAIRMAN: That is fine but they say that for reasons which seem to them sufficient they will not set up a warehouse here. Now then, what would you do about that and if nothing, we might as well stop discussing it. If there is something you think can be done we would certainly be glad to hear what it is. The American Corporation says they do not choose to set up a warehouse for tetraethyl lead in this country. Now is that the end of it or do you know something else that can be done?

A I do not know anything about that, I am sure, that is beyond me.

Q I mean whether their reasons are good or bad, they will not do it and if you know of any way of making them we will be glad to hear it?

A Would it be possible for the Government to purchase the stuff and resell it or any way like that?

Q Well that is one suggestion. Have you anything more?

A No, I am afraid I have not.

Q MAJOR LIPSETT: Have you ever approached them to find out on exactly what terms you could purchase?

A No, I have friends that have refineries in Montana and also one in Alberta that have approached them in past years; in fact the three of them, where they applied to get Ethyl fluid but I understand that this past year or two they have loosened up a little and if you submit your plans they will co-operate with you to some extent which they didn't do in the past. Now whether it is that this ---

Q Why do you not do that, Mr. Munro, and then come and tell us the results?

Q MR. FRAWLEY: Of course, Mr. Munro has this suggestion on Page 2, "if the above mentioned cannot be complied with then the price of Ethyl gasoline or gasolines containing Ethyl fluid should be increased in price another 4 cents per gallon or else barred completely for sale in Alberta."

Q MAJOR LIPSETT: I suppose that is your final, considered suggestion, Mr. Munro?

A Well, if it is not made available to everybody it is not

fair to the small refinery. I do not know whether they have had such a stiff neck, because they figure they are going to sell all the Ethyl fluid all the Ethyl gasoline that is going to be ethylized will be sold by them anyway and it doesn't matter whether it is Imperial Oil or the British American that gets it. If we want to sell a high octane gasoline other than the cracked product we must turn around and buy it from them.

Q We understand they have given a license now to two other smaller refineries here?

A Yes, I have heard that.

Q Why do you not apply for a license and submit your plans and then base a submission on the result of that. There was another suggestion that was thrown out to them, that instead of having a minimum barrel of 50 gallons that they should consider whether they could reduce the size of the drums so as to help the smaller refiner , that they might consider that; apparently when a barrel or drum is opened it has to be used.

MR. FRAWLEY: You might be interested to know, Mr. Munro, that your drum would cost you about $571.00, a drum of Ethyl fluid laid down in Calgary. Could you stand that, do you think?

A Well, that is just one drum, Mr. Frawley. The trouble is with the small refinery tieing up money over a long period of time where probably all your sales are not ethylized products.

Q Now you have some other matters that you want to discuss?

A The case of freight.

Q Freight rates?

A Yes.

Freight rates on manufactured gasoline, kerosene and deisel fuels should not be over five cents per hundred more than the crude rate. If the freight rates were set as above mentioned, it would then enable the Independent refiner to ship his products into Saskatchewan and Manitoba and compete against present market conditions. At the present time the crude rate is considerably less than what the finished product is set at, which enables the Major Companies to take Turner Valley crude, process it and sell it at prices far below at what we can compete with, which is very unfair, as it costs the Railroad Companies just as much to haul finished products as it does crude.

At a rate of five cents per hundred over the present thirty-five cent rate on crude to Brandon, Manitoba, this would give the Railroad Company a sufficient margin to handle higher priced finished products.

Q Then the next is "Price"?

A The past year has seen the most drastic price cutting western Canada has ever witnessed, a lot of this we feel is due to companies getting Crude and Naphtha below posted field prices. Also we believe that there is a general practice of blending Naphtha with kerosene, gas oil and Still bottoms, or anything that is desired to be rid of in order to flood the country with cheap gasoline,

and selling same as a cheap tractor fuel, which makes a poor and inferior product, owing to the fact that Naphtha is too light and the heavy ends at times are too heavy for even a deisel engine, which they are selling at any price that they can get.

We feel that the only way that this situation can be remedied, is to put Naphtha in the gasoline price range, and control prices according to the Beaume Gravity, as it is possible to remove the odor from naphtha and take, say a 70 gravity naphtha and a forty-four gravity kerosene, blend the two to about a 60 gravity which will make a starting gasoline, and which can be called anything that is desired.

Q THE CHAIRMAN: You believe in setting up standards, do you?

A Standard prices or standard stock?

Q Standard grades.

A If a person would want to call the Three Star a standard grade of gasoline which it is at the present time it is impossible for us to make it.

Q That is all right?

A So far as distillation range ---

Q Supposing that is standard number 1, certain specifications; something else standard number 2 and if you are selling only standard number three that is all you are producing?

A Yes.

Q Then you get away from the evils of mixing and blending?

A That is true. We agree with that.

Q Whatever yardstick you take, take a minimum for standard number 1, or a minimum for standard number 2 and have your

competition between those two ranges and the public would know what they are getting and you would know what you were competing with?

A Yes.

Q Would that not be desirable?

A Yes, if, the only trouble we would run into on that is octane number on which the major companies can turn out a higher octane gasoline than we can with their Ethyl plants.

Q They should be allowed to go into a higher grade then surely?

A Yes, I agree with that.

Q You would only get paid for what you are able to produce?

A Yes.

Q If you get a fair reward for that which you sell you should be satisifed and if somebody else can make a better product they should get more monny than you should?

A No, that is so.

Q After all they put the capital into that plant to be able to produce a better product?

A Yes, but a lot of them, when you put in the capital into a plant, we spent two years trying to get information on cracking units and after two years was up we did not know very much more about them than when we started so far as the price of the plant, what it would cost to put in and everything in general.

Q Would not the manufacturers tell you?

A Apparently they did not want anybody else in the refining business if they could avoid it; that seemed to be the attitude they took.

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Q Are there not people who make refinery machinery who are not connected with the major oil companies?

A I do not know whether they are connected or not or what the tie-up is, but ordinarily when somebody has something to sell and they get a prospect they are only too glad to submit what their product will cost or what, how soon they can build you a plant or what they can do about it.

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and when they reply to any communication that they make and tell you if you want to add something to your cracking plant they talk of $100.000.00 without figuring what it is you wanted or anything else, and when they finally figure that much you do not know what they are figuring on and that is the trouble we ran into.

Q All right, go on, Mr. Munro?

A The following are prices which we feel a Refinery should have to make fair living conditions for itself, and stop cut-throat prices among dealers and refineries, by compelling them to sell their products not less than mentioned herewith unless there is a change in field price of crude which would warrant same.

All products over 50 Baume gravity including Absorption Plant naphtha or naphtha direct from wells, or a gasoline exceeding 50 gravity or over to be sold to dealers at not less than .1 cents per gallon.

All products above 40 gravity and not over 50 gravity to be sold at not less than .10 cents per gallon.

All products above 30 gravity and not over 40 gravity to be sold at not less than .09 cents.

All products below 30 Baume gravity, refineries should be permitted to sell at whatever price they can get, as these products are practically unsaleable for internal combustion engines.

All prices to be F. O. B. Calgary.

No Refinery or distributor should be permitted to supply loan or provide without cost to dealers, paint, tanks, pumps, or give any concessions of any nature to induce buying their products.

Q MR. FRAWLEY: The next you have there is a short statement on your recoveries at your plant?

A Yes. As far as costs, to give you an idea of the cost of a gallon of gasoline, I realize the Commission has had an awful job trying to get the cost and it would be a big job for us to try and determine the cost, because we are still building on our plant. That is, it is not a finished plant ready to say that she is all there that we need. We are increasing it and putting other things on we need to it, and we cannot really charge up all our labor and all that sort of thing against what gallonage we have turned out. So that the best I can do is to give you what I think the straight run plant recovery would be. What the recovery would be from a straight run plant on say, 43 to 44 gravity crude.

The recovery obtained from Turner Valley Crude of 43-44 gravity processed through a straight-run plant would be in the neighborhood 70%, consisting of approximately 35% gasoline 15 to 20% Kerosene 15 to 20% Diesel fuel the balance 30% being loss and fuel oil or still bottoms which are practically of no saleable value.

That 15 to 20% kerosene, that would depend on the quality of the kerosene that was turned out and also would have an effect on the Diesel fuel.

Q MR. FRAWLEY: Mr. Munro, do you operate any bulk stations?

A No, Sir, not at the present time.

Q What are you running for your plant now, what do you think your average will be for 1939?

A I cannot say what that will be, Mr. Frawley, I am sure.

Q What do you do with the gasoline or products, how are they sold?

A Well, we sell through dealers and direct to farmers.

Q What do you mean when you say through dealers?

A Well, independent dealers throughout the country.

Q Do they come to your plant or have you any delivery facilities at all?

A Yes, we deliver by tank truck.

Q Which you own yourself?

A No, we hire trucks.

Q Oh. You make some deliveries then. How far do you deliver?

A Well, around neighbourhood of, well, practically 300 miles.

Q How far away are you sending it right now. What is the furthest point?

A I believe Provost is pretty near 300 miles.

Q Who at Provost would it be. Just give us a typical instance?

A That is just a farmer at that point.

Q Is it delivered on his farm?

A Yes.

Q In tank trucks?

A Yes.

Q From your refinery?

A Yes.

Q This is 3rd structure gasoline or tractor distillate?

A That usually runs tractor kerosene or tractor gasoline.

Q How do you establish the prices that you charge this man at Provost?

A Well, it is just pretty near what we can get, Mr. Frawley.

Q Do you look at the Imperial's price at Provost for similar products?

A No, we have not had the Imperial price list up until this Spring, when we managed to secure a new price list.

J. L. Munro.

Q Was there any difficulty in getting it?

A Well, I never went to the Imperial Oil to see if we could get it, or the B. A. Oil.

Q THE CHAIRMAN: You did not read in the papers you could not get it or anything?

A I did not. I do not believe I ever seen it in the papers.

Q It seems you are not giving the Imperial a chance to do the things for you that you would like them to. You do not ask them?

A I would imagine they would only say "It is none of our business", what their prices are, and in reality it is not any of our business.

MR. FRAWLEY: They publish them and they mimeograph them. They put them on the mimeograph machine. Anyway, you would know what they were selling tractor distillate for at Provost?

A Only by enquiring in the district.

Q Do you know what they are selling it at there?

A No.

Q If I told you it was 17 cents, up until a few days ago, is that any guide at all for what you will sell to the Provost farmer?

A No, we have a price that we sell here at the plant and any place we can sell and compete against the opposition we pick that territory. We have not got a price for the South and a price for the North and a price for the East. We set our price at the plant. It is impossible for us to have a price at different points because a lot of our customers come into the plant for their stuff.

Q Do you keep the same price all the time for the one product?

A We have a dealer price and a wholesale price.

J. L. Munro.

Q A dealer price and a consumer price?

A Yes.

Q This man at Provost, he is a farmer, he is a consumer?

A Yes.

Q He buys at so much at your plant and he has to pay for the trucking charge?

A Yes.

Q What does he pay?

A He is not exactly a farmer. He is a farmer dealer.

Q He gets a better price. What are the two prices on tractor kerosene at your plant?

A 9½ cents and 11½ cents.

Q At 9½ cents to the dealer and 11½ cents to the consumer?

A Yes.

Q And they have to get it away from there as best they can?

A Yes.

Q It is about 300 miles to Provost, you say?

A I would not say for sure on that.

Q But whatever distance it is, do you know how much per gallon has to be added on to that price?

A By freight.

Q To get it there for hauling?

A Around 4 cents I think. But I would have to figure it out. I think it is about 4 cents.

Q So if he paid 4 cents and 11½ cents he would be under the Imperial price if it is a comparable product. 17 cents is the tractor distillate price at Provost?

A What is tractor distillate? This is tractor kerosene I have reference to, or sometimes we call it heavy distillate.

Q This is called tractor distillate. I do not know whether it is

heavy or light. Yours is purely a refinery operation. You simply sell from the refinery door to dealers who come and take it away or you hire trucks to take it for them?

A Yes.

Q And consumers, they pay how much, 2 cents more?

A 2 cents more. If they can contract to handle a volume I think we oftentimes split that commission.

Q Thank you, Mr. Munro.

THE CHAIRMAN: Any questions?

MR. NOLAN: No thank you.

THE CHAIRMAN: Thank you, Mr. Munro.

(At this stage the Hearing was adjourned until 9:00 A. M. 4th August, 1939.)

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta August 4th, 1939

VOLUME 115

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EXHIBITS

EXHIBITS (Continued)

9.00 A. M. Session
4th August, 1939.

MR. FRAWLEY: Mr. Chairman, I think we might start with a statement from Mr. Nolan that he has, chiefly with respect to the reasons for the posting of the new prices effective 24th July and some other matters that Mr. Nolan says he wishes to file.

MR. NOLAN: From time to time, Mr. Chairman, arising out of the evidence, I have been asked to provide certain material. Then I have been requested by Mr. Frawley also to produce certain material and I have delayed putting it in until there was a convenient moment to do so and perhaps this is it. First of all I would like to put in the Employees' Thrift Plan Booklet which I was asked to provide.

(BOOKLET PRODUCED HERE MARKED AS EXHIBIT "567".)

MR. FRAWLEY: And Mr. Nolan also files ---

THE CHAIRMAN: What is that Exhibit?

MR. FRAWLEY: The Employees' Thrift Plan of the Imperial Oil and its participating subsidiaries. Mr. Nolan also files an annuity plan, a separate booklet, Imperial Oil Limited.

(ANNUITY PLAN BOOKLET PRODUCED AND MARKED EXHIBIT "568".)

MR. NOLAN: Then I was asked to produce, sir, a form of purchase, equipment purchase agreement. Mr. Halverson, you do not remember perhaps sir, was asked to produce one of these during the time that he was in the

[illegible] - Cassidy
[illegible] - Cross-Exam.

MR. [illegible]: [illegible] Gentlemen, I think [illegible] just about [illegible] a statement from Mr. Nolan that he was, already, [illegible] responsible for the passing of the new price effective with July and some other matters that Mr. Nolan may be asked to tell.

MR. NOLAN: Does this be time, Mr. Chairman, [illegible] out of the evidence, [illegible] I can [illegible] to provide [illegible] material. Then I have a map used in Mr. [illegible] to produce certain material and I have delayed putting it in until it was a convenient moment to do so and [illegible] this in. Most of all I would like to put in the Imperial Oil [illegible] which I was asked to [illegible].

(Exhibit [illegible] - MOUNTED MAP MARKED [illegible] "[illegible]".)

MR. BRADLEY: And Mr. [illegible] in a ---

MR. CHAIRMAN: Not in that [illegible].

MR. BRADLEY: The Imperial Oil [illegible] plan of the Imperial Oil and its [illegible] [illegible].

MR. [illegible]: [illegible] security plan, a [illegible] Imperial Oil [illegible].

(EXHIBIT NO. [illegible] - [illegible] MARKED "[illegible]".)

MR. NOLAN: Then I was asked to produce, [illegible], a form of [illegible], equipment purchase agreement. Mr. Chairman, [illegible] I don't remember [illegible], was asked to produce one of these during the time that he was in the

box.

MR. FRAWLEY: It is in three, it is in original, duplicate and triplicate.

(EQUIPMENT PURCHASE AGREEMENT PRODUCED AND MARKED EXHIBIT "569"

MR. NOLAN: Also during Mr. Halverson's evidence a discussion arose about the fact that Ponoka and Wetaskiwing stations were on a salary basis and we agreed to produce some correspondence in respect of the agents at those stations which set out the reasons for the continuing on the salary basis and then we also agreed to produce two statements, one in respect of each of those stations, showing the difference on a salary and commission basis.

MR. FRAWLEY: The correspondence separatetly, Mr. Chairman, what it really is, Mr. Chairman, is a memorandum the first document referred to is a memorandum or letter to Mr. Halverson dated the 31st of May, 1939, from his Alberta Manager, Mr. Stevens, I judge that from the initials.

THE CHAIRMAN: Well they are related to exactly the same matters?

MR. FRAWLEY: Exactly the same matters.

THE CHAIRMAN: Why not tie them together and make them Exhibit "570", can that be done?

MR. FRAWLEY: Yes, that can be done. Then it can best be described as that memorandum together with accompanying statements.

THE CHAIRMAN: Re salaried agents?

MR. FRAWLEY: Yes, at Ponoka and Wetaskiwin.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "570".)

MR. NOLAN: I was asked also to produce a Schedule of prices in effect at Calgary as of June 22nd, 1939 on the products of the Imperial Oil. I do not know whether that has ceased to be useful or not but it can be filed.

MR. FRAWLEY: Schedule of prices in effect at Calgary June 22nd, 1939. Oh well, it is to show the competitive allowances. Well, it speaks for itself.

MR. PLOTKINS: Was it not to include all the products which were not shown on the official price list which you had in your possession at that time?

MR. FRAWLEY: That is perhaps precisely what it does.

THE CHAIRMAN: What is the date of it?

MR. FRAWLEY: Calgary, June 22nd, 1939 Schedule of prices in effect at Calgary showing the tank wagon price, undivided dealer price and competitive allowances on a variety of products, Esso, 3-Star Gasoline --

THE CHAIRMAN: Those are in the main supplanted are they now?

MR. FRAWLEY: Oh yes indeed, there is a new price list out now.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT 571)

MR. NOLAN: I was asked to produce a statement of the discounts in respect of oils and greases.

MR. FRAWLEY: Mr. Nolan files a statement of discounts, automotive oils and greases contract, it is undated.

THE CHAIRMAN: Is that current?

MR. FRAWLEY: I would deem this must be current.

MR. NOLAN: Yes, it is.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "572".)

MR. NOLAN: Then there was a statement which Mr. Cottle wanted on the question of general distribution, what is called a Reconciliation Statement.

MR. FRAWLEY: It is a reconciliation of a certain item in Exhibit "281", Schedule 2-b, amounting to $89,233.38.

THE CHAIRMAN: Exhibit "281" Schedule 2-b?

MR. FRAWLEY: Yes, My Lord, of a particular item there and being a reconciliation it also has reference to Exhibit "301" and reconciles the two Exhibits.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "573".)

(Go to Page 12,918)

MR. NOLAN: Then a very short statement of Jobber's expense, which Mr. Cottle requested, and which is also used for reconciliation purposes.

MR. FRAWLEY: Yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "574".)

MR. NOLAN: Then in the course of Mr. Halvorson's evidence he was asked to prepare a statement which broke up commission agents into divisions, those who are on full time and those who have other business interests whose commissions from petroleum products would be sufficient by themselves to provide a livelihood and those whose commissions were not sufficient to provide a livelihood. It is self-explanatory and it breaks them all up.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "575".)

MR. NOLAN: Then we produce, at the request I think it was of Mr. Cottle, or it may have been Mr. Frawley, details of direct sub-station costs, at six low-volume commission agencies in the Province for the year 1938. You remember that?

MR. FRAWLEY: I seem to remember it, yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "576".)

THE CHAIRMAN: What will that be called?

MR. FRAWLEY: It is simply called "Details of direct sub-station costs, 6 small stations, 1938 sales."

MR. NOLAN: Then, Sir, I produce a statement being the estimated costs of operating the credit card system, which was required from us.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "577".)

MR. NOLAN: I produce a statement, Sir, which shows a list of the sub-stations in the Alberta division, indicating the warehouse capacity and the tankage at each point. I have already provided Mr. Frawley with that. He required it. I am just asking now to have one marked as an Exhibit.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "578".)

THE CHAIRMAN: It shows particulars of storage and so forth.

MR. FRAWLEY: Storage and so forth, tanks and warehouse.

MR. NOLAN: Then in the course of Mr. Halvorson's examination,-----

THE CHAIRMAN: Any copies of that?

MR. FRAWLEY: Oh, yes. I have several copies, but they are being worked on for the purpose of putting into one comprehensive statement covering all companies.

MR. NOLAN: The question arose, Sir, during the examination of Mr. Halvorson or cross-examination by Mr. Plotkins in respect to the sales tax, which, perhaps, you will remember, showed as 4.14% of the total expenditure in connection with direct sales in Alberta for the year 1938. The point arose if the sales tax was 8% how could we reconcile that with the 4.14%. I have an explanation of that signed by Mr. Irving McGrath and addressed to Mr. Halvorson. Perhaps, with the permission of Commission Counsel, I can put that in, that explanation, and read it to the Commission.

MR. FRAWLEY: Certainly, as far as I am concerned.

THE CHAIRMAN: How are you describing it?

MR. NOLAN: It is a letter, my Lord, dated the 26th of June, 1939, from Mr. Irving McGrath-----

THE CHAIRMAN: That is the witness who was here?

MR. NOLAN: No, he is a brother. To Mr. Halverson.

THE CHAIRMAN: Who is Irving McGrath?

MR. NOLAN: He is an accountant at the refinery at Sarnia.

THE CHAIRMAN: And this letter what?

MR. NOLAN: It is a letter re Sales Tax. That is sufficient to identify it.

THE CHAIRMAN: Yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "579".)

MR. NOLAN: It reads:

"
"

SARNIA, ONTARIO.
June 26th, 1939.

"Mr. A. E. Halverson,
"c/o Palisser Hotel,
"Calgary, Alta.

"Dear Mr. Halverson:

" I have been reading, with interest, your "evidence of June 20th, Volume 82, Page 9494, wherein "Plotkins is raising the point that the Sales Tax does "not work out to 8%, and it would seem that he was "trying to infer that Imperial has had some 'special "privilege' granted by the Department of National Revenue, "Ottawa, to the disadvantage of the Lion Oil & Refining "Company.

" The Sales Tax rate is 8%, and the price "on which this 8% is levied is on our wholesale prices "which are Jobbers' prices. However, as many sales are "made by Imperial at tax exclusive price to Jobbers, "Manufacturers and Provincial Governments, who account "for the Sales Tax to the Dominion Government on their

"selling prices to the trade, the average per gallon
"on Imperial's sales could not, under these circumstances
"equal 8% on every gallon sold, but an investigation
"of all our tax inclusive sales would show that we pay
"the established going rate of 8% to the Domihion
"Government on our taxable sales.

" As an example we sold approximately one
"million gallons of Absorption Naphtha to the B. A. at
"Calgary Refinery during 1938 at a price which did not
"include Sales Tax, and as the B. A. quoted their Sales
"Tax License Number to us on their order it entitled them
"to buy free of tax. However, when this Absorption
"Naphtha was wrought into the finished product and sold
"they had to account for the Sales Tax themselves to he
"the Dominion Government.

" I am writing you in this vein on the assump-
"tion the Sales Tax matter may come up again, and that the
"data which I have outlined will be helpful.

" Yours very truly,

" SGD. Irving McGrath".

MR. PLOTKINS: Excuse me, I want to make a statement in connection with that. The reason I asked to have this point clarified was the fact that we believe the Commission should deal quite extensively into this Sales Tax matter because it has a big effect on the price. And as the Sales Tax Law reads now and confirmed by this letter, the Imperial, for example, can sell, make an actual sale to the British American Oil Company at the new rate of 10 cents. We will take an example, Canadian Oils under their new agreement with the Imperial, they will be buying standard gasoline at 10 cents. Am I right, Mr. Frawley?

MR. FRAWLEY: 10 cents at the refinery door, and 10.3 at their own bulk plant.

MR. PLOTKINS: 10 cents will be the basis and the law permits the Imperial Oil to add 8% or to include in the 10 cents for the present sales tax, which is actually how it is done. Now, if that product is sold by the jobber at the tank waggon of 16½ cants, as it would be natural, it could not mean 8% on 16½ cents, it is only 8% on 10 cents. The retailer, the dealer could sell at the 16½ cents, figured on a percentage basis. If that were applicable to all companies, that basis, I would have no objection, but the fact remains that the law has specified that the Lion Oils, for instance, must make a sale to a jobber in order to establish a basis. They do not say "You can pay 8% on the 10 cents because the Imperial sells at 10 cents." If I am not in a position to sell to a jobber in the quantities and at the price that the Imperial pays, my price is 12 cents. The Department under the present law insisted that I settle at 8% on 12 cents. So that the result of it is the sales tax in my price is greater for the same selling price of 16½ cents than it is for the Imperial at 16½ cents. That condition has been somewhat remedied now due to the fact that we refused to settle on that basis and took it to the Exchequer Court of Canada and as a result of that judgment some relief was granted in the form that we now can apply to the Minister in person and say what price can we name for sales tax purposes and the understanding, I think now, is that we will not be discriminated against but that we will pay exactly on the same basis as the Imperial, whereas in the past we have paid thousands of dollars more than the Imperial would have paid on identical products. Now, in

connection with the example that was given in this letter of absorption naphtha. I do not know whether the writer intended to convey the impression that I do not believe is correct, whereas I understand this letter, the writer was making a point that when he added the sales that were sales tax exempt to the British American because of the fact the British American themselves report the tax on this selling price, did he imply that because of adding all those sales, the sales tax exempt sales to the total that it only made 4.14, or did he want to show an example that in this case there was no sales tax whatever paid by the Imperial? I do not know so I just want to point that out so the Commission will understand that example has nothing to do with sales tax. It merely points out that in the case of the company that has a sales tax licence with the Dominion Government that that company can purchase from another company on this licence without paying any sales tax at the time of purchase but must pay the sales tax at whatever rate that company is bound by law to pay at the time it makes the sale itself to the public. So I do not know why this matter of absorption naphtha was brought in here unless it was for information purposes.

MR. NOLAN: All I was attempting to do was to reconcile the fact that 8% appears as 4.14% in the statement which we presented to the Commission, and that is caused by the fact that certain of the gallonage is sold ex tax so the average is not 8% over all the gallonage but 4.14. Now, on June 23rd, Sir, we put in a statement of our fixed capital investment and other capital employed by the marketing department and, perhaps, you will remember that at the time that that was put in it was explained that the figures as to depreciation were correct and were taken from

our books at Sarnia. However, a special statement was prepared by Mr. McGrath, which met, I think, with Mr. Cottle's approval, covering depreciation on manufacturing investments, using the rate of the depreciation in effect for the year 1938. Perhaps you do not remember it, Mr. Chairman, but there was a statement prepared by Mr. McGrath on manufacturing in respect of depreciation, at the rate of depreciation used in the year 1938, not taken from the book but taken at that 1938 rate. We have prepared, Sir, some copies of our capital investment in the marketing department, based on the rates of the depreciation during the year 1938. We did that to make our statement of marketing depreciation comparable with our statement on our manufacturing depreciation. Now, the facts are that our net profit in direct marketing operations in Alberta for the year 1938 as disclosed in the evidence at page 9813 was the sum of $311,594.24.

THE CHAIRMAN: What page is that, please?

MR. NOLAN: Page 9813.

THE CHAIRMAN: Have you got the Volume?

MR. NOLAN: It would be Volume 85. Page 9813.

(Page 12,925 follows.)

Q THE CHAIRMAN: You are reconciling the capital position there stated with regard to marketing?

MR. NOLAN: Yes.

THE CHAIRMAN: With the capital position stated somewhere else with regard to refining.

MR. NOLAN: Yes, manufacturing, and at this page 9,813, we show a profit of $311,594.24 and that profit would mean a net return in 1938 of 8.46% on the depreciated fixed capital investment and for capital employed $3,681,634.93 as indicated in this statement which I am now filing. The point I am trying to make is this, sir, that the return, the net return is 8.46% on this new basis as compared with 9.7% based on the depreciated value taken from our books and put in by Mr. Halverson at page 9,813.

Q THE CHAIRMAN: What are the Exhibits which are dealt with, Mr. Nolan. This will be Exhibit "580"?

MR. NOLAN: Yes.

THE CHAIRMAN: Now what Exhibit does Exhibit "580" reconcile.

MR. NOLAN: Yes, if I can get that. If you will look at Exhibit "327", sir, you will find that this new statement which is now being marked as Exhibit "580" has reference to Exhibit "327".

THE CHAIRMAN: And Exhibit "327" deals with the capital position in connection with marketing?

MR. NOLAN: Yes.

THE CHAIRMAN: And what is the Exhibit dealing with refining?

MR. NOLAN: You will not want that, sir. All we are doing is making the marketing statement conform with our manufacturing statement. If you will look please at Exhibit "327" and "580" you will find that they are the two which refer one to the other.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "580").

MR. NOLAN: Now sir, I asked for instructions as regards the reduced price schedule and as you remember it came into effect on the 9th of July, and I am instructed to say, sir, that the Imperial Oil revised the Alberta price structure because of the large number of points at which it has been necessary for the company to make allowances indicated, that it was no longer compatable with existing marketing conditions. The reductions in prices of farm products were also in line with the policy reviewed by Mr. Halverson at pages 5 and 6 of Exhibit "315" at the Hearing before this Commission. The posted prices in the area tributary to the Calgary refinery have been based on prevailing rail rates but allowances have been necessary to meet actual market conditions. The new price structure will in the opinion of the Company at most points more accurately reflect existing conditions.

MR. FRAWLEY: First of all the reference Mr. Nolan is making is to Exhibit "549", the new prices effective the 24th of July, 1939.

THE CHAIRMAN: Exhibit "549".

MR. FRAWLEY: Yes my Lord. Now Mr. Nolan, just listening to you read that, would you say

the new price list Exhibit "549" was not made in contemplation or having any regard to the anticipated lower freight charges which may come about as to the petroleum products.

MR. NOLAN: I think it had very little to do with the new freight charges but at the request of Mr. Cottle,-I have not quite finished, I made other inquiries as to the reason for this new revised price list and the reply which I received was that the new prices effectve in Alberta are as Mr. Cottle assumes designed to meet the estimated trucking cost; also to eliminate allowances at most points where these have been in effect. To accomplish this we reduced the posted tank waggon price of Acto Gasoline and Tractor distillate 1 cent per gallon ex Calgary and based prices throughout the balance of Alberta on Calgary plus estimated trucking rates where same were lower than today's rail rates. With the exception of Calgary City we added 2/10 of a cent per gallon to this basis to cover interstation transfers. There was no reduction in the posted tank waggon price of Esso or 3-Star Gasoline at Calgary. However, at points outside of Calgary where estimated trucking rates meant a reduction of more than 2/10 of a cent per gallon below prevailing rail rates our posted prices on Esso and 3-Star were adjusted accordingly.

Now I think that makes it clear, Mr. Frawley, that it was not on the basis of the new rail rates that we brought these into existence.

And then I was asked, sir,

to make a statement to the Commission in respect of the jobbers of the Imperial Oil and I have a communication from Mr. Halverson. He acknowledges receipt of my telegram in which I requested for the Commission's information certain, more information regarding jobber relations and Mr. Halverson says:

"As I testified Maple Leaf Petroleum Company "Limited is a subsidiary of Imperial Oil, "Limited. Any of the jobbing accounts we sup- "ply are free to purchase their requirements "where they desire. This includes McColl- "Frontenac, whose contract with us expired on "June 30th and with whom no new contract has as "yet been negotiated. We have no control directly "or indirectly over any of the jobbers we supply "in Alberta with the exception of the Maple Leaf "Petroleum Company, Limited."

And Mr. Halverson closes with the remark that this information was submitted by him in evidence during the time he was before the Commission himself.

THE CHAIRMAN: Yes, but as I recall Mr. Halverson did not discuss the contractual relationship of those jobbers.

MR. NOLAN: No.

THE CHAIRMAN: He says McColl-Frontenac contract has expired and has not been renewed which may be a matter of 24 hours, but he does not say anything about any of the other jobbers.

MR. NOLAN: He says, and it does not effect what is said in the submission, "Any of the

jobbing contracts that we supply are free to purchase their requirements where they desire". "We have no control, directly or indirectly over any of the jobbers we supply in Alberta with the exception of the Maple Leaf Petroleum".

THE CHAIRMAN: I suppose he means stock control, corporate control. As I recall what we wanted specially from him over the evidence that he gave was the contract that he had with the jobbers.

MR. NOLAN: I do not think he has any but I will get that definitely from him.

MR. FRAWLEY: Yes, I think he might be a little more specific about that. He says they are free to purchase and that might exclude the existence of a contract.

MR. NOLAN: Perhaps when I get that I might just hand it in through Mr. Frawley.

THE CHAIRMAN: I do not know whether that means that or whether it means the only jobber we control in the sense of owning it is the Maple Leaf.

MR. NOLAN: Now sir, there was an Exhibit put in as Exhibit "326" and I have been furnished with five additional copies of that and it may be that there were not sufficient copies of that Exhibit at the time.

MR. FRAWLEY: That is quite so.

MR. NOLAN: And so for the convenience of everyone these are the additional copies.

MR. FRAWLEY: That is this large Exhibit, Exhibit "326" showing the spread.

MR. NOLAN: Now lastly, sir, Mr. Halverson went through his evidence and has transcribed and brings to my attention what he thinks are a number of inaccuracies in the transcript. What I propose to do with your permission is not to take up time discussing them now but to submit them to Mr. Frawley and if he agrees that they are clerical errors in the transcript perhaps the court reporters can find it convenient to change the volumes of the Commissioners. It seems to me that would be the easiest way to do it, rather than discuss it here now.

MR. FRAWLEY: Yes and if that were not done it would not help much if we agreed they were inaccuracies. The Commissioners would have to go through each of their volumes.

MR. NOLAN: I have six copies of what Mr. Halverson contends are inaccuracies but to file this means you would have to look all the time at this Exhibit when you were reading the transcript and for your convenience I would like, after agreement by Mr. Frawley, to have the original record in your possession changed.

THE CHAIRMAN: I think that might be all right, if Mr. Frawley approved, and providing it did not effect anyone else.

MR. FRAWLEY: I was just going to say depending on the nature of them.

THE CHAIRMAN: Mr. Harvie has brought out something in cross-examination as it was taken down, and it certainly should not be changed without his saying "I agree that this is an error" and the same applies to

anyone else.

MR. NOLAN: Yes, Mr. Frawley and I will proceed on that basis.

THE CHAIRMAN: If Mr. Frawley will have that in mind.

MR. NOLAN: Most of them are quite minor but he asked me to have that corrected and I feel I should do so.

MR. HARVIE: We have copies of the transcript of the evidence and if we were supplied with a copy of the corrections we could correct our own. I would like to see that our copies are in due accord with the others.

MR. NOLAN: I think that is all sir.

THE CHAIRMAN: Major Lipsett makes a suggestion that I think is a good one in that connection, Mr. Nolan, namely that you file one copy of your proposed ammendments which will be available for everybody to see at any time.

MR. NOLAN: Yes.

THE CHAIRMAN: And if subscribed to by Mr. Frawley after considering whether or not anyone else is effected then the transcript can be amended and in the meantime everybody who wants to see what the proposed amendments are can. That will be Exhibit "581".

MR. NOLAN: And these will be the amendments as proposed by us and not agreed to.

THE CHAIRMAN: Yes, merely filed to make it available to anyone who wishes to look at it.

(COPY OF PROPOSED AMENDMENTS PRODUCED AND HERE MARKED AS EXHIBIT "581").

THE CHAIRMAN: Proposed changes in Mr. Halverson's evidence.

MR. FRAWLEY: Yes.

MR. FRAWLEY: Very well. Mr. Stanger.

MR. PLOTKINS: Before that I would like to make a statement.

LEON L. PLOTKINS, having been recalled, stated:

WITNESS: I want to file a number of Exhibits now.

MR. FRAWLEY: Do they tie up with other Exhibits?

A Yes, some things which have been asked for and some things which are necessary. The 1939 spring prices, that is our latest.

MR. FRAWLEY: Mr. Plotkins offers as an Exhibit, Lion Oils, Limited, 1939 Spring prices, F.O.B. Calgary.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "582").

Q Yes, Mr. Plotkins?

A A copy of our agency agreement.

MR. FRAWLEY: Lion Oils Limited Agency Agreement.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "583").

WITNESS: And our consignment agreement.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "584").

MR. FRAWLEY: The consignment agreement

of Lion Oils, Limited, form of agreement.

WITNESS: Let me have that. I want to say something about it. Mr. Commissioners, I want to give a few explanations in connection with our consignment agreement so that you will be able to understand it a little better. This agreement stipulates that we will furnish our consignment agents with a definite amount of petroleum products and we limit it, according to the size of the operation, from $250 to $500; in other words to show how, the mechanism of how it works, a man has been dealing with us for some 2 or 3 years and we get to have enough confidence in him to trust him with $250 or $350 or $500, we say to him "We will give you 'in the case of the smallest' $250 worth of petroleum products. An assorted stock that will take care of your requirements in your district. Now that stock will be our property and all we expect you to do with it is to sell the goods at your prices and replace the goods with the money which you collect and keep that amount of stock on hand as close as possible at all times."

Now the effect of that arrangement is to eliminate all costs of bookkeeping, checking, auditing, and it also forces the dealers,- the most important part of it,-to sell for cash because if he does not receive the cash he cannot come in and replenish his stock; he cannot buy on credit from us and therefore he goes out of business and we would prefer and we do prefer that he go out of business than to sell goods on time because if he sells them on time he is going to go out of business anyway because his capital

is limited or he is going to find ways and means of securing goods from us by N.S.F. cheques or something else, so that the effect of this agreement is merely to assist that dealer to have a stock on hand at all times for the convenience of himself; when he is unable to come into town for two or three days, bad weather, or if the farmers the customers that he has requires some small quantity in the interval. Now outside of that perhaps, in here, the rest of it consists just of safe guards where we recite that he handles the goods on a trust basis and that he does not represent us in any other capacity.

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And now as I pointed out the main purpose of this agreement is to give him stock so that he can better service his customers, and the next most important purpose is to eliminate all expense, because my experience is that in connection with credit sales especially in a small company where we are not as well equipped as the larger company in giving credit and handling and administration of credits, and have not the facilities available for securing capital at as low a rate of interest, or if at all, that system permits us to continue our policy of selling for cash only to the public. It permits a large turnover for a small amount of capital and thereby reduces the cost of it to the consumer. When I say a large turnover, you will no doubt observe we have a very small capital involved and yet we do a very big business if you take into consideration the small amount of capital that is involved in our operations.

I also have here an Exhibit which I wish to file.

MR. FRAWLEY: There is no description. You had better give us a brief description.

THE CHAIRMAN: We want a heading.

Q MR. FRAWLEY: Tell us in a few words what it is?

A This is the position of the Artic Oil Company, which is one of our jobbers, that they now find themselves in as a result of the published posted tank wagon price, July 24th of the Imperial Oil in connection with the straight-run gasoline and tractor kerosene, two third-grade products.

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Q MR. FRAWLEY: It is a statement prepared by the Lion Oils Limited?

A No, it was prepared by Artic Oils and was turned over to us.

Q Are you satisfied.....?

A Well we have checked it, and the figures in there represent the cost. We know what we sell them at. We know what their cost of trucking is. We know what their agents' commission is, and the rest is self-evident.

Q It is a statement showing the results of the Artic Oil Company's ..... that the Artic Oil Company finds itself in with straight-run gasoline and tractor kerosene, which they purchase from you, as a result of the new Imperial price, effective July 24th, 1939?

A Yes, at the points that the Artic Oil market in.

Q At the points indicated?

A Yes.

THE CHAIRMAN: As a result of the Imperial Oil.....

MR. FRAWLEY: New price list, Exhibit "549."

(STATEMENT IN QUESTION IS NOW MARKED EXHIBIT "585")

THE CHAIRMAN: You will be calling the Artic Oil some time, I suppose?

MR. FRAWLEY: Well, as a matter of fact.....

THE CHAIRMAN: They seem to be busy people.

MR. FRAWLEY: Yes, Sir; very well.

A Now, Mr. Commissioner and Mr. Chairman, I want to give you the effect or the reason for preparing this statement. The reason and the effect of the results of this computation. The reason for preparing the statement is that as a result

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of the new published price list of the Imperial Oil tank wagon spread, the official tank wagon spread between third-grade products represented by third structure gasoline and tractor kerosene have been widened more than the previous official Imperial Oil tank wagon price list. I find that the Commission was advised a few days ago by the Canadian Oils - we will take them as an example to find a jobber's set-up - the Canadian Oils will buy 3 Star or the equivalent, standard gasoline, for 10¢ f. o. b. refinery from the Imperial Oil. They will also buy third structure gasoline for 9.2¢ from the Imperial refinery. Is that correct, Mr. Frawley?

MR. FRAWLEY: Yes, that is correct.

A Now, that means then the Imperial have made a differential of 8/10ths of a cent a gallon between standard gasoline and third structure, which in my estimation and to the extent of my experience represents approximately the actual difference in cost of producing these two products.

Q MR. FRAWLEY: That is f. o. b. refinery?

A F. o. b. refinery. We find however the official price list has the effect of forcing the other companies if they follow of making as much as 3½ or 4¢ spread between the two products. In other words, third structure gasoline will go on the market at a considerable loss to the companies concerned including the Imperial. Now, when I say that I have particular reference to Exhibit "576" that was introduced this morning, and which has a foot-note which says "Note: Our total direct expense for operating 279 commission stations in Alberta in 1938 averaged 2.19¢ per gallon as per our Exhibit "314",

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Page 11." Now that is the average over-all, good stations and bad stations. The bad ones as shown in this Exhibit go right up to 3.35¢ per gallon marketing expense. Now this Exhibit of the Artic Oils shows the margin of profit out of which the Artic has to take care of the following items. Shrinkage when sales are made to dealers. Of course, shrinkage is not only shrinkage in the form of evaporation, but it is a big shrinkage in the form of the difference between the temperature at which the Artic Oil purchases it and the temperature they sell it at. In other words, goods are sold by independent companies on an average, not on the scale - and that is another thing that I do not believe has been brought out in the Hearing. The major companies as a general rule, their agents sell gasoline and any other liquid products on the weight basis. They have scales at their various bulk plants and they fill these barrels and weigh them and determine the amount of gallons or quantity of gallons by relating the weight to a weight table which I think is furnished either by the Dominion or the Provincial Government. I think the Provincial Government. Now the effect of that is to increase the price to the consumer if you compare it with the basis that the independent companies sell at, which is the volumetric basis of sale. In other words, the Imperial Oil agent at a given point when he sells a drum and says it weighs so much relates it with that table and it means he is selling that farmer that barrel of product at 60 degrees temperature. He relates it back to terms of 60 degrees. But when any one of our customers comes to our Edmonton or Calgary station, we measure that gasoline through

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a Dominion Government inspected metre and we give him an actual gallon of so many cubic inches as called for by law.

Q THE CHAIRMAN: Why should not they be the same in all instruments are accurate?

A I am going to explain why they are not the same. I will give this as an instance because it has a bearing on marketing. I found that our Edmonton station sales were growing and were growing out of proportion to what we would normally expect. In other words, we were not selling very much cheaper. Our service was not any better and the surrounding circumstances of our sales did not give any reason for the farmers or consumers rushing to our station. But I found they did rush to the station, and so I began to investigate to find out what was the trouble and why should they prefer us, everything else being equal, to some other company, especially when we had one company flanking us on both sides. After a certain amount of investigation I found our tanks which were under-ground, due to the fact it was at one time a low slough and which had been filled in and the ground was very moist and cold and our tanks never went up above 40 even in the hot of the summer. So that when the farmer came with his drum and filled it with the metre, if he left the drum sitting for a couple of hours, his drum would over-flow. In other words, we filled his drum and he claimed and no doubt he did get better measure. We had no means of discontinuing or doing anything about it because the law forces us to have our metres inspected once a year at least, and the Government inspectors and Department of Weights and Measures comes around and inspects our metre.

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We are still selling by the volume and not by weight. We have built up a big business in Edmonton comparatively speaking and in Calgary due to that fact that the farmer is getting more for his money, even though he is only getting a gallon from us and he is only getting a gallon from the Imperial. But the difference between the Imperial gallon and our gallon is, ours is on the volumetric measure, whatever the temperature may be of storage under-ground or above-ground, and with the Imperial or similar companies where they operate on the scale basis, they get gasoline at 60 degrees. I may also mention that that possibly does not give them that much. It has a tolerance as permitted by law. Very small, but in 45 gallons it might amount to a quart or two quarts. So that when the farmer buys at one of these bulk stations, usually he gets less in volume. That is one of the things that the Artic Oil have in mind when they say shrinkage when sales are made to dealers or consumers. Then they point to shrinkage allowed a consignment agent. It is the policy of the Artic Oil where they have stocks in the country on a consignment basis they allow their agents 1% and that is the cost of doing business insofar as the Artic is concerned.

Q THE CHAIRMAN: Are they your jobbers?

A They are our jobbers in respect of third grade and kerosene. We do not sell them standard gas nor Ethyl gas. They buy that from the Texas Company the same as we do. And then another item with them is bad accounts, because they do an orthodox business. That is they give a certain amount of credit and carry on in the ordinary way. Then another one is drum losses. In other words, they have a marketing expense in connection with the investment, and depreciation

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of drums. And another one is the regular over-head administration and so forth and taxes. If we take all these items into consideration and deduct them from the margin, I am going to read and weigh them against the costs of doing business of the Imperial, and the Commission can draw its own conclusion. I will take a few items so as not to take any more time than is necessary.

Calgary, the Artic buy third grade from us and pays 9.125 f. o. b. our refinery, volumetric measure. In other words, we do not sell at 60. The cartage is .25¢ or a ¼¢ a gallon. Agent's or dealer's commission, the Artic apparently pays on the same basis as the major companies 2¢ a gallon.

Q THE CHAIRMAN: What is the effect of this volumetric system, supposing a case in which the tank is a vertical tank and not in a slough, you would be short, what you put in the barrel as compared to the 60 degree temperature determined by weight?

A You could be.

Q You have just one case where you are in a slough?

A Yes.

Q Which does not help us much considering Alberta?

A That is true, but I am going to give you the general experience so that you can weigh that. On an average under-ground storage does not rise even the hottest part of the summer, due to the regulations that are at present in force in Alberta where we have to bury these tanks with at least 3 feet of dirt on top of the tank, the temperature never rises above 60. In other words, where the ground is very warm, under certain conditions, sand

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where the heat is reflected downwards to a greater extent than other soils, the temperature to my knowledge and experience, we will never find the gasoline at higher then 60 degrees. So that no matter where the location of the tank and no matter what conditions in under-ground storage, my opinion is that the farmer or consumer will get a full gallon at 60 degrees at least, but in most cases the under-ground storage never rises above 50. There is moisture in the ground and that keeps the tank level, my experience is, the average is around 50 in the heart of the summer. In the winter it goes down to as low as 30, and in certain cases probably down to 20 but never below.

Q Amongst other things you say out of under-ground storage the farmer or the consumer gets more for his money?

A Yes.

Q Than where he is taking the oil in the summer time out of vertical storage?

A I am coming to that.

Q Is it a fact whether you are coming to it or not?

A Yes. Except in the dead of winter when the temperature too is below zero or below 20 and then the condition is reversed. He will get more if he buys on the volumetric measure from above-ground storage than he will from below-ground storage. In vertical storage in the summer time in the heat, as at the present time, for instance.

Q Yes?

MR. FRAWLEY: That would be a good description.

THE CHAIRMAN: Yes, and that is why we

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are going to finish today our public Hearing.

A I hope so, Sir.

Q We are?

A My experience is, and I have had considerable with respect to storage above ground, is that the smaller the storage the more it reflects atmospheric temperature, that is above ground. A 1,000 gallon tank stuck up above ground will come close to reflecting the actual outside out-door temperature than would the 10,000 gallon tank filled with gasoline. For this reason, the greater the volume of gas in a tank, depending upon its construction, its height, and the comparatively less time the sun and heat of the day has to penetrate in the bulk of the product. In other words, due to our climatic conditions here where the nights are very cold, the greater part of the time is cold and the hot weather has not sufficient time to penetrate most of the gasoline in a big tank, and the temperature will vary in tanks according to the size of the tank and the amount of gasoline in the tank. So that there is no set rule that I can give the Commission that will reflect the difference between an under-ground tank and an above-ground tank but I will say this that at no time to my experience have we measured our tanks at the refinery above-ground and we have them all sizes from 1,500 to 100,000 gallons, where the temperature was above 80, to the best of my knowledge. If we were selling a farmer out of one of those small tanks where the temperature was 80 the farmer would be getting 1% less in that connection than, if he was buying straight-run gasoline 62 gravity, because depending on gravity,

the rate of contraction and expansion is not the same for all petroleum products because the denser the product the less contraction. So where he buys at the average bulk station, Imperial, B. A., or anybody else, that has above-ground storage and a 10,000 or 12,000 gallon tank variety and he buys on the scale basis, the farmer is no worse than in the summer time than in the winter time. He gets exactly what he pays for according to the way of selling Imperial Oil or other major companies'. In other words, he is buying gasoline at 60 degrees. With us it happens that during the greater, the hotter part of the weather, where there is greater consumption, in other words, in the winter time there is very little consumption compared with summer, so if he can buy on volumetric measure from under-ground storage, he is a little better off.

THE CHAIRMAN: Everything being related to 60 degrees and then weighed, surely it gives it accurately. He may get an advantage in dealing with you with under-ground storage, but an advantage to which he is not entitled.

A That is correct, Sir.

Q Therefore, there can be no criticism of anything other than perhaps your generosity that lets them have it, or your business instinct, as the case may be. But if it is related to 60 degrees and then weighed, and the weight taken, it would seem to be accurate?

A It is. I am not criticizing it. I am just pointing out the difference. We are not generous. It is not a case of we wanting to be generous. It is because circumstances are such that selling by metre is less costly.

Q Than installing the.....?

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A Than installing the scales and handling all the barrels. Now, there is an important factor in a station such as ours in Calgary or in Edmonton where we sell on an average 600,000 gallons a year out of one station, if we had scales we would have to have 12 men and we could not take care of the business within a reasonable time. With meters we can expedite deliveries so that 4 men can take care of it. Labor is one of the big items in merchandising, so that apart from the question of fairness or unfairness, the meter system does expedite delivery, and reduces the cost of doing business. On top of that, the farmer or consumer is getting a little the edge over if he was buying on the weight basis.

Q Depending on the weather?

A No, at all times. If he is buying it on the weight basis, even at this time of year, the hottest part of the year.

Q Not if he is getting it out of a small storage tank?

A A small storage tank under-ground, if he is getting it from a small storage tank above-ground, he is going to suffer. The average independent distributor or jobber his storage is under-ground as you have been informed during this Hearing,

Q I think I understand you?

A Coming back to this statement that the Lion Refinery price that we will show some time is even unprofitable to the refinery. In other words, 9.125 does not permit the Lion Refining Company a reasonable profit. So even starting with that figure and giving effect to the cartage and commission margins, the profit at Calgary for Artic Oil that is left to take care of the items I have enumerated is 1.125 or 1-1/8¢ to take care of the marketing cost that the Imperial themselves

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pay is at the very least, the best they can make it, 2.19. And that 2.19 is based on a depreciated, very low depreciated value of capital investment of bulk stations and marketing facilities.

Q MR. FRAWLEY: You show here an item of cost, f. o. b. refinery. That is what the Artic pays f. o. b. refinery?

A Yes.

Q 9.125 per gallon?

A Yes. That is the lowest. 1-1/8¢. That is at Calgary. Calgary has been for a number of years the most competitive point in the province. We come to Red Deer and the margin is 1.975, almost 2¢. You come to Lacombe, and it is 2.1. And that is the highest of all, 2.40 at Lacombe. At Athabasca it is 2.175 and that happens to be the highest of any point in the Artic Oil system, 2.175. Now, my experience for the last eight or ten years we have been working, and when I say "we", the Lion Oils Limited, and its predecessors, we have been adding to our refinery figures 2½¢. Not just 6¢ or 6½¢ or 5¢. I have considered and as I say allowed the company 2½¢ per gallon for marketing costs, and we can make a profit. I want to explain that this 2½¢ was not on the same basis as the Imperial allow their jobbers, 6¢, because I eliminated agents' commissions from my calculations and allowed 2½¢ to the Lion Oils Limited to market the product below the agent's commission and figures and we can make a profit of 1¢ a gallon at 2½¢. So that if you give effect to our present agents' commission of 1½¢, which is on third grade and kerosene, it would mean 4¢ and with 4¢ we

have made a good big profit. In other words, in my calculations I have allowed myself 2½¢ for marketing plus the agent's commission whatever it happened to be. We have never paid more than 1½¢ a gallon on third grade and kerosene. That was one of the reasons we had to go into the country farmer and get them to work for us for less money than the other companies' agents worked for. 2½¢ is the smallest that the company can operate on, and it has to be very efficient in order to make a reasonable profit on that basis. So that when the Imperial through this present posted tank wagon price allows a margin - because after all when they post a price the other companies more or less have to follow and the effect of the Imperial posting a price is to set a price for the other companies at which to sell at, and I notice the price they have set allows in a good many cases only 1½¢ for marketing costs including the agent's commission of 2¢. So it is obvious it cannot be done.

I am not criticising the Imperial for doing that, but I want to point out to the Commission that the Imperial has done that from a competitive standpoint. In other words, they have placed themselves in a position of where we along with the other independent companies have set a price on third grade gasoline and kerosene f. o. b. our point of refinery or distribution and allowed natural conditions to set the selling price to the consumer throughout the province. In other words, when we set a price of 12½¢, we will take for example at Calgary for our third grade gasoline, what-

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ever the cost of transportation is by the most efficient method that the purchaser can find, and whatever the cost of marketing is by what competition allows that dealer, the laid-down cost at any given point in the country in Alberta will be as low as conditions for the time being exist permit. As a result of the workings of this natural law, the Imperial found themselves in a position where their agent was quoting we will say 16¢ for third grade and the dealer that was buying from us could lay it down in the same point and sell it to the farmer and deliver in small lots for 14¢. There was no evil of our own because we took in the case of third grade that applied to the Imperial Oil price list in Calgary and deducted 1¢ to take care of the credit and drums and so forth, but we did not give the consumer or the dealer, and the natural workings of the differential was not as the Imperial had worked it out on their price list, but was actually what developed under the conditions that governed at the time.

To retaliate against us to protect their business and as they want to run it, they have for the last two years created conditions that are calculated in my opinion to eliminate us as a marketing factor. In other words, if the margin of profit on third grade and kerosene based on the posted field price of crude in Turner Valley is not sufficient for us to pay our bills honestly there is nothing going to happen except we are going to be eliminated.

I want to point this out to the Commission now, that if that were not so, what I say is, there would be a corresponding reduction in the price of

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3 Star and Ethyl. But there is not. Of course the Imperial can answer as Mr. Nolan has done this morning, and I can I think corroborate it, that competitive conditions do not force us to reduce the price of 3 Star and Ethyl. But we have to meet trucking conditions and the other conditions and competition forces us on third grade and kerosene. I think they did not go far enough, and I believe the position is this, that not only might it, but they have deliberately created conditions as evidenced by their new prices to jobbers and related to the new price list, the tank wagon price list, they created a condition that is calculated not only not to permit us a profit but not to permit their own jobbers a profit, so that the demand for third grade and kerosene will be less and less, and it will preclude any reasonable possibility of refineries springing up, what we call skimming plants springing up so that ccompetition will be restricted to cracking plants. Of course, they will circumvent competition of that kind.

I want to ask the Commission to take that matter into consideration seriously because I believe that it is going to wipe out our company and the other companies unless we are able to compete, unless we are able to combat that, and I think we are going to combat it. It is self-evident how we are going to combat it. In my opinion we are not going to go out of business. We have to eat just the same. We are going to build our cracking plants and when it is finished the same as the Imperial has done, we can go and say "Now we have a cracked product, equal to 3 Star or somebody else's gas, but we are not in a financial position to open up as many stations. So that we are not

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going to be able to sell our cracked gas on an equal basis with the Imperial or the British American. So that in order to market our cracked gas, we are going to start selling it in the field now covered by third grade gasoline at a price sufficiently low to enable it to supply that field. So that the Imperial will be faced with a new situation.

At the present time, they may still operate profitably on the basis of 3 Star and Ethyl. In other words, they are selling a comparatively small volume of third grade and kerosene so that they can hit us without much expense to themselves. But the minute we start hitting them in their primary market, which is standard gas and Ethyl, there will be no escape. They won't make any profit. They will have to face the situation.

Now, it means war. And I know we are the loser in a war because we have not got the capital. The only advantage we have is possibly we can use our wits and move a little faster.

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And probably conditions are created where we survive in spite of everything they do so that I think that the Commission should consider that position very seriously because in the first place our company for the first five months of this year showed a serious loss for the first time in its operations since the inception of the company and that serious loss has been brought about by just that condition.

Q MAJOR LIPSETT: Is that Lion Oils or the Refining Company?

A Beg pardon?

Q Are you speaking of Lion Oils or the Lion Refining Company?

A I am speaking of both; for the purposes of profit and loss we join both companies so as to reflect the true position because after all it is only a bookkeeping propositi whether you make it in one company or whether you make it in the other, so that, as I say, for the first five months of this year we have shown a serious loss and we are going to continue to lose money until our cracking plant is finished and we go out and market third grade in the price range which is at the present time, at least show a good big margin of profit. Now I think that the Commission should be considering not only the prices being too high but it should also be considering whether prices are too low and the effect of too low a price, that the effect of too low a price in my opinion is to eliminate our position and that is one of the aspects that the Commission, I believe, is concerned with.

Another thing I want to say is, I am informed that the British American is going to disregard

the Imperial price list on third structure and kerosene.

Q MR. FRAWLEY: How about on the others, on the Esso and 3-Star, are they going to follow them?

A Yes, because there is no change and they are profitable but my information is ----

Q Oh yes, there are some changes?

A I am going to show those changes in a little while, that the British American, and I discussed the position with their officials, consider that that price is ruinous. There is no justification and they do not intend to follow it and the position for the first time in the Alberta field is that we are going to find another major company defying or disregarding the Imperial Oil prices and experience and time will show whether the Imperial will capitulate or whether the British American will follow suit.

Q MR. FRAWLEY: As the darkey says "That is something"?

A Yes, it is something, that is where the true competitive factor comes into play; for the first time the British American apparently feel that that high price which the Imperial has imposed is ruinous, is not fair and is below the cost of the value of the product to the public.

Q MAJOR LIPSETT: That is the 3 - Star you are taking about?

A 3 - Star and tractor kerosene.

Q The prices of those two you think are too low?

A Yes, considerably too low at the present time in relation to the others.

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Q And that extra margins on the others enables them to cut the prices of those two products?

A That is correct sir. In the statement which Mr. Halverson has submitted you will find the cost of the competitive discount for the Imperial Oil for the operations covering Alberta during 1938 and if I recall them they were $ 68,000.00. Well now that is a very small cost with which to hit an independent possibly because, as has been shown, the margin of profit on the operations as a whole are sufficient to absorb $68,000.000 and still show a good profit, whereas a company such as ours which is operating exclusively on straight run and kerosene, there is no other ways in which to recoup and I might say there, that we do sell Ethyl grade and standard gasoline but due to conditions which have prevailed in this province for a number of years, for the last four or five years, our company has never been able to secure a price that allowed us more than a 3½ cent margin below the posted tank wagon price on standard or ethyl. Now that would allow us in effect 3½ over the undivided dealer price. Now we have found apparently a means of marketing on a 3½ cents basis and make a good big profit.

Q Cannot you get as good a price as the Gas & Oil products from Imperial Oil?

A No, I would not say we could not but at that time conditions were such that it was not warranted for us to change for the short time; another thing the question of quality entered into it but on the average, in fact that is the only instance where the Imperial, through the Maple Leaf,

did offer us 5 cents but the product at the time was such that we felt we could not sell it as a standard grade but with the Texas Company we have purchased our standard gas and Ethyl grades from them for a number of years now. At the present time, due to the elimination of the 3% Excise, our margin is a little bit better than 3½ cents. I have the figures here and will submit them as an Exhibit but before that our margin was 3½ cents or less and naturally we were not able to recoup our losses, whatever they were, from the sale of 3rd grade or tractor kerosene on our profits on 3rd grade because we did not have a margin to work with, so the only time we were able to do that is when we manufacture standard and Ethyl grades but at that time we will not keep up the prices of Imperial because of economic necessity on our part. I have pointed out a few minutes ago that we have not got sufficient outlets in the form of service stations and that would be the only basis on which we could keep up the price posted by Imperial Oil Limited on standard and Ethyl and the reason here is that the Imperial Oil, when they decide on a price they have in mind their own type of operation, as has been demonstrated in this hearing and it provides for all their expenses and what they consider a reasonable profit. Now that is in respect to Ethyl and standard based on their ownership and control of certain outlets in the form of service stations which show a marketing cost of so much but with us when we get manufacturing Ethyl and standard our problem will be naturally different. I have not the money. I do not feel I can get it, to justify me going out and building a lot of service stations and if I did I

might be stopped at the present time by the Provincial Government refusing to grant me the licenses because they would say I would be duplicating existing facilities but I have no such intention. I do not think it is necessary for us to go out and build a lot of service stations so we will be restricted to selling our Ethyl and standard gasoline to the market where it does not require any investment and that means the farmer and to the dealer who is already established with his own outlet and his own facilities. Now to do that we will not need as much a profit. We will not need nearly as much a spread, so that we will in my case, I will sit down and calculate what my probable cost of marketing in that manner will be and I will add a profit to it which I estimate I want to make according to conditions and I will set my price accordingly. Now I have no doubt that that will be lower than the existing tank wagon price. Now what will happen then will mean that our price will be lower and while the Imperial Oil at the present time is cutting up with the independent companies in that they are now basing their price lists, at least in the main, on actual competitive conditions as represented by truck distribution as against rail distribution, they will then be faced with a new problem. They will be faced with the problem of companies such as ours going out and disregarding their posted tank wagon prices for standard and ethyl because we will have to market under different conditions and most likely at less cost. Now on the face of it that is what it looks we will be doing but actually we will not be able to do that for this reason, if we go brazenly and post

a lower price we will be in the same position as we are now for third grade and kerosene. They will go lower, why, because they are not going to stand for us changing their price and we will not be personally able to enforce it, so that to actually take care of the situation and still sell it at a lower price, we will do what we are doing now with service stations, we will post the same price as Imperial but we will use the difference between what we would sell it at if there was no one to interfere with us and what the Imperial price list shows, to go out and get business; in other words if the price we feel sufficient for our requirements is 14 cents or 14½ cents as against 16½ cents, we will have 2 cents with which to go out and encourage somebody to start up in the service station business or to put a bulk station or to start up in the jobbing business so that you will have duplication anyway and it is only by duplication that competitive conditions are given effect to; in other words, you will not put anybody out of business unless he breaks himself and the only way he can break himself, outside of the big companies which have enough capital to stand a loss in a given area as against their entire operations, the only way an independent jobber or a local company can break itself is to go out and put up service stations or bulk plants which cost them, including the marketing costs, more than they are able to get on the market and when that condition arises they have to close up and no legislation is going to help that and I do not conceive of any condition that the Government can

impose which will accomplish that so that I am pointing that out because I think this is the proper time to show the mechanism of prices and to come back to this third structure and kerosene, if we sell our standard gasoline and our Ethyl at what in effect will be at lower prices, while we may, it is the same price, the Imperial will be bound to meet that competition, the Imperial or anybody else, so that they will be back to the point that they are now with 3rd grade and kerosene, in other words, in the next two or three years or maybe sooner we will have a repetition of the condition in the third grade and kerosene field, in the Ethyl and standard field. Now we have been able, the independent companies and the jobbers, have been able to bring down prices; apart from the Turner Valley situation, considerably on third grade and tractor kerosene, due to the factors which I have enumerated and it is only today, on July 24th, that the Imperial finally recognized the situation and got down to a competitive basis and went a little further. Now they will have to do the same thing when it comes to standard gasoline and Ethyl.

Q MAJOR LIPSETT: What would be the advantage or disadvantage, Mr. Plotkins, of some such system as limiting the margins that would be charged between these different grades of gasoline, that is to say, that there should be a fixed spread as between third structure and standard and between standard and Ethyl; if a company thinks that their price for third structure would be ten cents say, and with a reasonable profit and a reasonable cost of manu-

facturing the next higher grade should be allowed a certain rate by way of spread, what do you think of that?

A Well, Mr. Commissioner, I am opposed to any fixing of any spread or price for this reason. It is not sound. It will not work out. That is my experience, now for this reason, that if you do fix a grade or if you do fix a price and I am a newcomer and want to enter that business and the reason I want to enter that business is because I believe I have figured out a way to do things better, cheaper, less cost; in other words, suppose I found the cost of marketing at the present time under present conditions is 4 cents a gallon or 2.9, Imperial, and I figure I can do it for a cent and the only way I can benefit and make anything by my discovery if it works out that way, is to give the benefit to the public, why, because if the law says that I must sell at the same fixed spread or the same price as the other fellow, well my invention is no good to anybody, not even to myself.

Q You are talking about marketing but I was rather talking from the refining point of view?

A Oh, the refining, well now the refining, there is going to be no trouble from now on with that. I do not believe the Government or the Industry will have to worry from now on as to the relative spreads of products at the refinery; for the first time in 25 years in Alberta, the Imperial has got down to a sound basis, f.o.b. refinery price, and if we can eliminate them from fixing prices in the country, then the refining condition will and the sale price of the relative products, will take care of themselves

because the jobber and the marketer and the public will buy where they get the most value from any one product; in other words, at the present time the Imperial has fixed a sale price, which they have a perfect right to do, at the refinery; that sale price in my estimation is what they believe is going to allow them a fair profit and that is a sound basis to work on.

Q Does that fair profit which you talk of, does that apply to the third structure?

A Yes, at the refinery, 9.2 as against 10 cents, it is certainly going to give them a relatively equal profit on both products.

Q THE CHAIRMAN: Then what is it all about, if you have regard to whether or not a product is too high or too low, then, you say we should be concerned with whether or not it is too low or too high?

A Yes.

Q And you tell us there should be no intervention at all of any kind, that competition should have full and free play?

A Yes.

Q Now what point are you making with us, to be clear on it?

A Well that seems to be a paradox. The point I am making with you is that if we can create conditions in Alberta by eliminating certain legislation that I have referred to in the beginning of this hearing which will have an effect of putting everybody on their own, no privileges to anybody, all of these matters will take care of themselves because if the price of crude takes care of itself and there is no control in the Valley and there is no control as to marketing practices, it is self-evident that the Imperial will not fix

prices in the country. They will be just content with fixing prices at the refinery door for wholesale and they will lease out their bulk plants and lease out their service stations because they cannot market as efficiently as the independent.

Q MR. FRAWLEY: And they will stop publishing these price lists?

A Yes.

Q And what will make them do that, in a word?

A When it is unprofitable to control the price.

Q And what will make it unprofitable to control the price?

A When they no longer control the price in Turner Valley.

Q What price in Turner Valley?

A The crude price.

Q MAJOR LIPSETT: Well, who is going to alter that if there is going to be no Government interference?

A There should be Government interference in one place and only one; basically the Government must of necessity, due to conditions over which the industry has no control, regulate production and practices; having done that and seen that there is no waste, both physically, and in the handling of the crude and in the producing of it, if their function stopped there, the industry is better able to take care of itself in problems than the Government is and the public will benefit to a greater extent than if the Government, through Commissions, that is, what I mean by that, Public Utility Board or some other Board at Edmonton, or at Ottawa, attempts to regulate conditions, competitive values and so forth.

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Q Just a minute ago, Mr. Plotkins, you were telling us about the loss you had sustained for the five months?

A Yes.

Q And that it should be eliminated?

A Yes.

Q Because it had been only on third structure?

A Yes.

Q Now you are putting in a cracking plant to make a different product?

A Yes.

Q And what is to prevent one of the bigger companies with units all over Canada from applying the same practice, if there is no Government interference here, to your new products for such time as it is necessary to completely ruin you?

A Nothing except I would like, my experience teaches me that I can face competition no matter how big the competition is because I can use ingenuity in finding methods which will reduce my costs and still meet their competition at a profit; I may not do it immediately; for instance we lost money for the first six months but forces are at work in our company to try to create conditions for the Imperial and others where we , even at them prices, can operate at a profit; in other words the natural law of "breaks", in our case or anybody's case, necessity is going to force us to devise ways and means of overcoming our difficulties.

Q THE CHAIRMAN: Given time your natural ingenuity will show you ways to meet them no matter how big they are?

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A No matter how big they are. Of course it is true that they might keep it up.

Q The bigger they are the harder they fall?

A Well I would not say that.

Q MAJOR LIPSETT: Why should not that condition of no interference wiping out the weaker man, why should that not apply to production in the same way?

A On the face of it that question is quite reasonable.

Q MR. FRAWLEY: But only on the face of it?

A Only on the face of it because production is a natural resource. The Lord put it in the ground. Nature caused a lot of oil to be accumulated in Turner Valley and unfortunately under our present economic system everybody can go out there and drill a well, whether they can see a profit or not because they can do it at the public expense and as a result of that condition they may bring out all kinds of crude, more crude than the market can normally absorb and the natural law of forces, the natural causes will naturally regulate that but at too great an expense to the public; in other words, that condition will right itself because if they cannot sell their crude they cannot get money to go and drill but that is too great a cost to the public and to the industry and the industry is entitled to consideration in Turner Valley, so where there is a natural resource that can be tapped at will and in the first place belongs to the country, there is a perfect right, both from a moral standpoint and through an economic interest to regulate the production.

Q MR. FRAWLEY: You do not think then with some people, if you regulate that production that the small

fellow is just going to be on his way out and then just the leading companies are going to stay there?

A No, it all depends on how you regulate it.

Q THE CHAIRMAN: You do not by any means go the length of subscribing to Mr. Frawley's common pool?

A No I do not becuase conditions teach me, that is my experience or the conclusion I can arrive at, that there is no such thing in Turner Valley in respect of the structure but I do subscribe to conservation because I want to see the Oil Industry in Turner Valley at the lowest possible cost, which means the lowest amount of physical energy to get it out of the ground and into the channels of market.

Q Now you are predicating all of this on the theory that the Lord put this into the ground?

A Yes.

Q Then why should anybody have any special interest in it, why should it not be restricted by the Government for all people and not for Lion Oils or any other company, on your own theory?

A Yes, well Mr. Chairman, it sounds all right but it does not work out in practice. You say why should not the Government bring the oil out and market it because the Government has shown in the past that it cannot do it as efficiently and at as low a price; a cost, as private activities can do it. Now that is the answer; in other words, if the Government attempted to produce crude under the present condition with the prospects of crops, the cost of refining and marketing, and the one hundred and one different things, they would

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have to train staffs, they would have to get men who are able to weigh all the problems which enter into the production of Petroleum Products as against the competitive forces in other sections and I do not believe ---

Q You say the people are sufficiently sharing in that natural wealth by the royalties which the Government get from those who do produce it?

(Go to Page 12,965)

A No, they do not only get relative to Turner Valley crude---

Q And taxes, of course?

A But Turner Valley brings into being wealth that is a benefit to everyone and we want, at least what my contention is that that wealth has through legislation been concentrated in the hands of one company, and if the law can be changed where the condition is created, or prevented rather, where----

Q THE CHAIRMAN: You have to be consistent, I suppose. At least you want to be, I suppose. You have not got to be. You said there is to be only one instance of Government intervention and that is to see there is no waste. Now, if there is no waste it does not matter whether it is one company or twenty. That is the whole question is waste or no waste, no matter whether it is one company or twenty that takes it out of the ground?

A That would be right, Sir, if you only took into consideration the question of waste. But in the marketing you also are concerned with the price that the products move to the consumer. So if you concern yourself at the other end with price then you must take into consideration is it beneficial to the consumer for one company to extract the oil in Turner Valley.

Q I am talking about what is in our Commission. I am talking about your own submission. You rather stressed there was only one instance in which it was proper for Government intervention and that was to see there was no waste.

MR. FRAWLEY: And hands off everything else. That is your submission?

A No, I did not mean that.

THE CHAIRMAN: Well, we will hear what you mean when we come back.

(At this stage there was a short recess.)

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A I have another statement to present.

MR. FRAWLEY: All right.

A That is a comparison of the old tank waggon prices with the new tank waggon prices and the amount of change at the same points of the Artic Oil Company and a general explanation.

MR. FRAWLEY: A statement is produced showing the effect of the changes introduced by the Imperial on the 24th of July?

A Yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "586".)

THE CHAIRMAN: Is this Artic Oils?

MR. FRAWLEY: Oh, no, this is not Artic Oils.

A Yes, it is prepared by Artic Oils, it is their points but the effect is the same on all companies. I have another Exhibit, an article in the "Lethbridge Herald" under date of July 29th, purporting to refer to the doings or the hearings of this Commission and giving as a basis for the whole Inquiry the Government intends to take over the oil business and to operate it under some social system. I think that article should be drawn to the attention of the Commission because it has certain implications that would lead me to believe that this Inquiry may only be a fishing expedition on a political basis and we should keep that into consideration or the Commission should take that into consideration-----

MR. FRAWLEY: Keep what in consideration?

A The intentions, or at least the purposes or-----

Q What the "Lethbridge Herald" feels or thinks?

A No, this is a correspondent from Edmonton and refers to what the Government has in mind and what they may do.

Q And certainly I do not intend to offer it. If the Commission

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wants to read the "Lethbridge Herald" of the 29th of July, all right?

A It goes into details of what it is proposed to do with the oil business and it certainly gives me to understand that it may be the purpose instead of being for the public benefit it may be for political purposes and regulating prices. I think it should be drawn to the attention of the Commission.

THE CHAIRMAN: You have drawn it to our attention.

A Well, that is all. Now, the next Exhibit I want to refer to is a number of pages in "Accounting for the Petroleum Industry," by Morland and McKee.

THE CHAIRMAN: You have it back?

A The Commission Accountant has a copy of his own.

MR. FRAWLEY: We have the 1938 edition, as I understand.

THE CHAIRMAN: That is an old one of yours?

A Yes.

Q As we pointed out once?

A Yes.

Q What do you have to say about it?

A In submitting our report on refining costs we supplied that on the sales realization basis. This book in pages 181 and 182 condensed the various methods of arriving at the cost of products that are processed from a barrel of crude oil, and they disagree with the contention that has been given or explored with this Commission, where it was said that it was impossible to arrive at the respective costs of gasoline against kerosene and so forth. It just gives the arguments and the ways----

THE CHAIRMAN: What is that Exhibit number?

A This was Exhibit No. "201".

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MR. FRAWLEY: Exhibit No. "201".

THE CHAIRMAN: It is already in and we have now your pages.

A Thanks. Well, that is about everything.

Q Do not forget to leave it here because it is an Exhibit?

A Yes, I got it bank because we had to use it. Now, the only thing I have left is Mr. Frawley intended to ask me some questions about jobbers. Before I answer him I want to make one correction. Mr. Gilbert when he was on the stand made reference to trucking and our company being the first to enter into truck distribution, and the Chairman made some observations in that respect in regard to Great West Distributors. I want to correct the statement of Mr. Gilbert and say in my opinion the Great West Distributors were the first company in Alberta to distribute over a wide area, in other words, on a large scale, petroleum products on a trucking basis.

Q MR. FRAWLEY: Well, you know, Mr. Chairman, most of the jobbers have been asked their views about the place of the jobber in the marketing situation in Alberta, and it might be as well at this stage, even before we adjourn, to have a concise statement from Mr. Plotkins who is, in fact, a jobber with respect to Premium and regular grade gasoline, what his views are as to the place which the jobber has in marketing petroleum products in Alberta, and whether he serves a useful purpose insofar as the consumer is concerned and the industry in general.

A In the first place, having been a jobber for some eight or nine years, that is buying products in Montana or in Alberta and selling them on the market, I feel that it is only the

jobber that can really affect the resale value of petroleum products, because as between refineries, where the problems are exactly the same and the methods of operation are similar, there is a tendency to level off prices. With the jobber no such tendency can exist. He has the world in which to buy his products and he just pits one market or one refinery in Alberta maybe to the refinery in Tulsa or in Montana. At one time we did bring in our gasoline from Tulsa. In fact, when I first started in the business, that is where it came from.

Q THE CHAIRMAN: I can see the force of what you say. Do you think that has any effect where the jobbers are tied up a year at a time?

A I have not come to making any distinction as between jobbers. It would not have any application whether a jobber was merely another company for a refinery, another marketing company. For, naturally, in my case, or in the Imperial's case or anybody else's case, if I have a company and I have put up the money it is only for the purpose of selling my goods, and the only time we sell somebody else's goods is when we cannot manufacture them any cheaper, or if we cannot buy them as cheap from ourselves as we can buy them s elsewhere, And even that company can perform a function in the marketing system because there arrives a time when the Imperial, for instance, in respect of the Maple Leaf, will allow the Maple Leaf to buy elsewhere, to correct a marketing condition and it has happened in connection with the Maple Leaf. The Maple Leaf, I guess about a year ago, the reason they offered us 5 cents - I did not qualify that statement this morning or earlier in my testimony - that

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5 cents was conditional on us selling them 3rd grade gasoline and kerosene because they felt that we could supply them cheaper or by buying from us they might create a condition that would be favourable to them, so that even in the case of the Maple Leaf there is times arise that they do perform a competitive function. But the only reason the Maple Leaf did that was not to give a benefit to the public but was to hold us in check so that in the end the Imperial, that is the parent company, could better control the price of the product. In other words, when the Maple Leaf starts to buy from us, well, it is only for the purpose of putting us in a position where we are more or less obligated to them and will be inclined to follow their tactics; in other words, to put us in a condition of servitude. The next thing is the jobber, the independent jobber - and when I talk about a jobber now I have in mind only one type of individual or company that is local in character, in fact in Alberta it is only possible that the jobber can only be local because the other jobbers, through their ramifications with their International or national organizations, are no longer in the same position as the independent local jobber because I have no means of knowing what are their ramifications. For instance, Canadian Oils with a parent company in the States and through the parent company connected with someone else, and their ramifications, I treat them for the purposes of competition as the Standard Oil Company, even though they may not be one. Because I know by experience that Canadian Oils will function along certain lines and facts and as they have shown that they can afford to lose $25,000.00 every year for the last ten years and still carry on, and a local man could not do that. So, therefore, they have means

available to them of overcoming the economic conditions and that means we cannot successfully compete with that type of competition, and the fact is because they can do that they have no effect on the competitive price in this territory. If they operated on a strictly independent basis they would have to shut up shop. If they did they would be wiped out. And, therefore, if they were forced into that condition in the industry there would be opposition created where I would get a little more gallonage and cut down my costs, whereas if they stay in the business at a loss they prevent the industry from realizing a proper profit and in that regard-----

Q MR. FRAWLEY: The North Star does not lose. While you are eliminating these International organizations, the North Star have told us that they have not lost money?

A I am not in a position specifically to deal with this North Star because I did not hear their testimony.

Q MR. FRAWLEY: There may be something else that counter-balances it. But you have to deal with them all separately?

A I am only talking from experience and my impressions and also the fact that at one time the North Star made me a proposition when I first came to Calgary, and it was that I give them 60% of the stock and me take 40% of the stock and have a marketing company and I could make so much money. Now, what I am driving at is, no major company operating on the basis of the North Star can be independent and manage their own position where they owe a lot of money or manage their own position where their operations depend on another company entirely. They are not local, what I would call an independent jobber. In other words, they are supported

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either through loans as in the case of the Maple Leaf or the North Star, or through special privileges which might not show up on the face of it, and this agreeing not to compete with them at this point or that point, which cannot be made the subject of any contract in writing, or giving them long terms on their purchases and so forth, so that for all practical purposes the only jobber I am dealing with is the jobber such as is represented by the Great West Distributors and the Artic. They have no one to support them. If they do not make it pay they pass out of the business. The Government does not subsidize them and the companies do not subsidize them. That is the only type represented by those two in Alberta that I am dealing with now and I am restricting my remarks to that type of jobber. It is proven to my satisfaction because I have been one of them, that they can market at considerable less cost than the Imperial or any other major company and it is in fact because they can market at a less cost that they influence prices because while they might not pass it on in the form of reduced tank waggon prices they do pass it on to the consumer through some discount to the dealers, who in turn pass it on to the public because competitive conditions force them to. In other words, if I give my dealer a better net price f. o. b. Refinery so that he could sell it at his destination at a less price than the posted tank waggon of the Imperial shows, Mr. MacKenzie of the Great West Distributors will attempt to compete with me and he will give his dealer, therefor through some method or other, even though it might not show on the surface, sufficient to meet that competition.

Q THE CHAIRMAN: All right. Will you direct your mind to the case I put to you, namely, of jobbers who are tied by

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contract for a year at a time, and whether or not during that period of that contractual relationship they are providing any competition?

A Yes. They are. For this reason, Mr. Chairman, take the case of the Great West Distributors. He has a net cost f. o. b. refinery, as I understand the contract. Now, that spread between that and the tank waggon at the point he markets is greater than he needs to make a normal profit under his system of distribution and, therefore, he will try to make the most money by selling the greatest number of gallons at the lowest possible price to the consumer, a fair price to him and a profit. In other words, Mr. MacKenzie is in a position where if he sells 100 gallons at 3 cents profit he might make $3.00, but if he sells 500 gallons at 1 cent profit he can make $5.00, so he naturally chooses to sell 500 gallons at 1 cent profit. He is not concerned with crude oil prices and he is not concerned with refining prices. He is only concerned with the net profit in dollars and cents. He is not even concerned with gallonage except as a means of making more money. So his inclination, apart from his contract, is to go out and market at the lowest possible cost so as to take as big a margin as possible between that cost and the production, plus marketing costs and the official Imperial tank waggon. So that by selling a greater gallonage at a smaller profit he ultimately makes more profit.

MR. COMMISSIONER LIPSETT: If he sold 100 gallons at 6 cents he would get more profit for less work?

A No, he would not, because he could sell 10 gallons at the same cost, we will say, as he could sell 5. He does not require more staff or more stations or tanks. Therefore, if it does not increase his cost to him to sell 10 gallons at

1 cent than it does to sell 5 gallons at 3 cents he will sell at the cheaper price. In fact, that is the basis which I am basing my operation on. I am not looking for big profits per gallon but I am looking for big profits on my investment. So that I think that that answers your question, Mr. Chairman?

THE CHAIRMAN: Yes, it does. If you can show that you are cutting prices as against the major companies anywhere.

A He cuts the price in this way-----

Q I do not say that the prices should not be raised all around, but we are just talking about something else. The cry has been that the jobber has been by providing competition and a more efficient method of marketing, been performing a very excellent service to the public, and that may be so. We have had some instances that have not been fully explored where a jobber has sold at less than the major companies, according to his evidence, But is it true, that, generally speaking, that is so, or generally speaking is not the major company's price the price you pay?

(Page 12,975 follows.)

A That the jobber sells at.

Q Yes?

A I can only give you my experience, Mr. Chairman. I know the Great West has been tough competition to us and the only way it can be tough competition is to sell at the same price or lower and that is considerably below the tank waggon. Now it is true, just the same as it is true of every companies' jobbers, such as the North Star and the Maple Leaf, that in the main they attempt to sell at tank waggon; in other words officially they endeavour to sell the greatest volume possible on a straight tank waggon basis; why, because that permits the widest spread, because of competition or because of their desire to make more money, not on a spread basis but in total. They go out and where they can get the most spread they will give a dealer a price or sell him under conditions where the net price to him will be less than the tank waggon and what I mean by that is, it is not necessary to have an invoice to prove that we are selling lower than tank waggon or some other company is selling lower than tank waggon, in fact you will find very few invoices the way the industry is carried on at the present time. Everybody uses inginuity to find a scheme where they can show an invoice at regular tank waggon and still sell at less.

Q MR. FRAWLEY: Why such dishonesty?

A It is not dishonesty.

Q Pretence?

A Pretence.

Q Yes?

A Well now I have explained that before, it is the same explanation I have given you, Mr. Frawley, in connection with service station prices in Edmonton. It is because if it is done openly there is only one remedy for the Imperial and that is to beat it but so long as it is not done openly and it only effects a small percentage of the total, they are better off financially to disregard it. Now that is self-evident to me; in other words if the Imperial sees that 10% of the volume is moving at 2 cents on an average below the tank waggon through our compeition, through MacKenzie's competition, somebody else's competition, they certainly would be poor business men and poor financiers to say "We are going to cut the price on the whole thing because somebody is selling at 2 cents less". Now they have sat down and figured if they cut the price on the whole thing they lose so much money. If they allow that condition to exist they are going to lose considerably less and they choose the lesser of two evils.

Q THE CHAIRMAN: So long as MacKensie and yourself and others like you remain small in your operations they will leave you alone you think?

A That is the idea.

Q It pays them to ignore you?

A That is it.

Q So long as the percentage of underselling is relatively small?

A That is right.

Q But the minute you become important enough to provide

real financial disturbance?

A That is it.

Q To the price they wish to maintain?

A Yes.

Q You would probably go out of business?

A Well here is the way I would answer that, Mr. Chairman---

Q At least you would be engaged in a price war?

A Yes. No, not necessarily in a price war because there are various ways of the Imperial imposing the price or the condition on us, not necessarily to start a war.

Q MAJOR LIPSETT: Does that mean anything more, Mr. Plotkins than that in order to get a share of the business, a company such as Mr. MacKenzie's, using that as an illustration, may give part of his commission to a dealer in order to get that dealer to put the business through him and enable him to get part of his commission, but that that cannot be passed onto the public because it would at once effect other companies' price structures?

A No, that is not the understanding, Mr. Commissioner. It is passed onto the public.

Q THE CHAIRMAN: It gives something to the dealer?

A Yes.

Q More than he ordinarily would and perhaps should?

A Yes.

Q The dealer in turn, without making too much noise about it?

A Yes.

Q Sees that the public gets it passed on to them?

A Yes, for the same reason.

Q He gets a greater volume than he otherwise would?

A Yes.

Q But it is not so great in the overall picture that the major companies cannot afford to ignore it rather than change their general price structure?

A Yes, that is correct, sir, so long as it is not great enough.

Q Now what about their subsidiaries, why do they let you get away with that on your theory?

A Who get away with it?

Q MacKenzie and you?

A Let me get away with it?

Q Why not bring at once the Bell Refinery and the Maple Leaf into play to do this what you are doing?

A Well they do. Now here is the way that is done, in order to keep us down small and to keep disturbance to a minimum, there is one method that experience has taught the big companies to adopt and you have said that briefly, Mr. Chairman, you have said so long as we are small they do not bother us, that is exactly it and the problem is to keep us small so what they do to do that and mind you I am frank to admit that if I was handling the policies of the Imperial Oil and had to meet such a condition as I am describing I would probably do the same thing; the fact is that the Maple Leaf, the Canadian Oils and companies of that type and the Imperial itself to a limited extent, as has been shown here, to a greater limited extent than these other companies, in other words, the Imperial is shown that they do meet com-

petition. in the form of a half a cent in some cases and a cent in others but it is only limited to a few outlets.

Q Special allowances?

A Yes, that is apart from special allowances, that is greater discounts, which is the only way the other company can do it, but with the Maple Leaf and the Canadian Oils they make it their business to get as great a gallonage as possible on the same basis as we do; in other words from the very nature of things the Maple Leaf or the Canadian Oils are interested in as much profit as possible and they go out and on the same theory as we do. it may be by meeting competition and selling at a lower price, that they would get more business and in the long run make more money. Well now why do they not succeed to the same extent as we do or the Great West Distributors or the Artic Oil, because I know all them companies are very successful, now why, because there is one thing lacking in the set-up of the Maple Leaf or the Canadian Oils or any company of that type----

Q MR. FRAWLEY: Why do you put those two companies together?

A I am putting them in a type because they work under the Imperial Oil system, I mean they are both jobbers of Imperial Oil.

Q Oh yes?

A Certainly. Now one distinction, they have not efficient, acapable management in the sense, not that the managers are not efficient or are not capable but in the

sense that the managers are bound within certain definite limits of management and as a result of that condition they cannot use their own intelligence to the full extent; they cannot change the system that is imposed on them, so as to run economically and they go out and do that and wind up with a loss or a considerably smaller profit. Now that is the basic reason, so that when it ends up these companies that perform the function with less cost and less loss, ultimate loss than the Imperial, than if the Imperial had done it themselves.

Q Yes, they help to hold you down?

A Yes and perhaps legitimately but that is the situation; now that is the second reason.

Now the third reason is the jobber makes it possible for competition to grow in the form of independent refineries. I do not believe I could have progressed as far as I did if it had not been for the help of the Great West Distributors and the Artic in that they provided me with a market for a good proportion of our refinery output at a price that we could sell it to them at practically our cost and still make a lot of money on it. Now that is something which has been explained before. While on the face of it I may sell to the Artic or the Great West Distributors at my exact cost for Lion White, what I consider is my exact cost, I can make a profit because before I have agreed or before I went to see Mr. MacKenzie and offered him 9 cents, if 9 cents is my cost, I calculated if I increased my output 25% I will reduce my cost to 8½ cents, so therefore

I go to him and I say "Well now I will sell you at my present cost, 9 cents, if you will give me so much gallonage", and I reduce my own cost with what I have to sell and what I sell to him, as a result of that deal, to 8½ cents and there is another aspect to that, for some years we were continually in trouble with the Government over the taxes for the reasons I gave this morning. Now Mr. MacKenzie made it possible for me to sell at a price that is comparable to the major companies and I established, by the fact that I did sell Great West Distributors, a higher tax value; in other words if I sold to the Great West Distributors at 9 cents, I could use that as a basis for sales tax that figured out one year a saving to us of $4,000; now that is just from an aside but it nevertheless made $4,000 for us, so that is another benefit that the jobber conferred on our company and the same applies to the Artic, the same applies to the other smaller jobbers we sell to.

Q THE CHAIRMAN: You are not forgetting, Mr. Frawley, that we have to put in statements from Mr. Plotkins?

MR. FRAWLEY: Oh yes, Mr. Stanger is here to put in some supplementary statements.

WITNESS: I have only two more points and I am through.

Q THE CHAIRMAN: All right, Mr. Plotkins.

A Well as I said and I want to amplify it because of the additional gallonage that the jobbers, the Great West and the Artic, potential gallonage for our refinery, we are able as a refinery to reduce our costs and therefore if we reduce our costs and on our system of doing business

where we do not follow blindly the other fellow's price, we pass that reduction onto the consumer in a lower price.

Q MAJOR LIPSETT: The consumer?

A The consumer, yes.

Q MR. FRAWLEY: You do not sell it to the consumer, what have you to do with it?

A Well we sell it to the trucker and certainly we sell it to the consumer. We sell it through the cartage agent. The Greatest part of our gallonage is sold that way.

Q You are talking about jobbers, jobbers do not enter into that?

A No, but if our price is lower because the jobbers buy a million gallons from us and I reduce my price 1/2 a cent I am able to sell a half a cent cheaper to the dealer or to the consumer.

Q It is volume wherever it is, whether it is direct or through jobbers, more volume less cost I suppose?

A I know but the practice is to pass it on to the consumer and the reason I do is from a selfish reason, to in-- crease my profit.

Now the next thing I want to touch on, there is only one criticism I have in connection with jobbers and that is that the Imperial and the major companies have maintained too big a spread, too big a jobbing spread and I think it has reacted to the detriment of the independent jobber because it has forced him to use subtlety in order to absorb that big spread and his marketing costs take the benefit of it and get a good profit; in other words if instead of 6

cents he only had 4 cents there would not be so much giving away this and giving away that secret, it is not secret, all it means is he meets a situation because he has the means to meet it. It is secret because it does not appear on the face of the ticket and that is all.

Q What do you think the fairest way would be?

A That is something else, I have an opinion, I do not believe that the Commission should attempt, naturally explore it, that is their duty, but not attempt to set any margins even jobber margins and under the conditions that I suggested earlier it will take care of itself and it will come down to between 3 and 4 cents and that will be ample to take care of wholesale distribution.

Q Your own jobbers' margin and the farmer on the Ethyl and "Q" Brand is 3½ cents?

A 3½ cents and when we have our split-up profits on products I will be more intelligently able to say or show, I do not know myself what we have but I will be able to express really a more capable opinion based on that, as it applies to our own office;

Now there is another point that the jobber has been instrumental, more so that anybody else, in bringing about an advantage to the consumer and that is quality and specifications. I recall when I was a jobber and I had a contract with the Maple Leaf or previous to that with independent refineries in Montana; now I insisted on the product being up to specifications. I was buying them. I was paying for them. I certainly could impose my conditions and I did impose them. The minute I made a deal with the Maple Leaf

and acted as their manager I had imposed on me "Here is a product, go out and sell it". I found it was no good. I didn't want to sell it. I went to the chemist of the company at Coutts and I went to the president of the company and showed it was not as good as I had been used to selling it; the chemist and the refinery superintendent maintained it was good enough. They said "Sell it or get out" and that is exactly the condition that the average subsidiary of the Imperial or any other company is faced with, that if the Imperial shipped a carload of gasoline to one of their points, the Maple Leaf or the Imperial Oil agent, he may kick, he may make representations but nine times out of ten unless the product is so bad that it will not sell at all, he will be told "Put it in and sell it", why, because the cost of shipping it back is probably as much as the value of the product and the condition is imposed on the agent or on the manager of the subsidiary company, whereas a jobber such as Mr. MacKenzie or the Artic, if I deliver them or the Texas Company, my contract with the Texas Company definitely stipulates if any product is not up to specifications they will take it back at their own expense and we make sure when I sell to a jobber that the quality is up to the mark because we know if it is not they will refuse the shipment. Well now that is pretty nearly everything I have to say.

Q MR. FRAWLEY: Now if the jobbing business is all you say it is, why are you getting out of it?

A There is only one reason I am getting out of it because

you have to be a pretty good juggler, pretty shrewd marketer, to stay in the jobbing business.

Q You are pretty shrewd, are you not?

A I am a little lazy at times mentally and I think Mr. MacKenzie has made a wonderful jobber, of maintaining such, in spite of all the changes and conditions which have been in existence in this Province and I would not go through, I would not do it for all the money in the world. I feel that if as a refiner I can get my crude on a competitive basis and take my chance of manufacturing and selling it, I am creating employment for myself, I can make a profit, probably enough for myself and my family and do it on a reasonable profit and that is all I want.

Q You are the very opposite of the jobber, you are intregated, you refine and market yourself?

A Certainly.

Q You have made a very nice defence of Mr. MacKenzie's company?

A And Trimble or anybody else.

Q But speaking about yourself, you are a jobber?

A Yes.

Q And you are getting out of it as fast as you can?

A That is it.

Q And you have been struggling for months and months to get an Ethyl contract so you would not have to sell somebody else's goods?

A Yes, because I feel if I can manufacture a product on a profitable basis I will not have to work so hard to

You have to be pretty good looking, pretty about
nothing, it stay in the [illegible]
[illegible] pretty crowd, are you not.

I am a little busy at [illegible] mentally and [illegible]
[illegible] has made a wonderful lobber, [illegible]
such, in spite of all her duchess and conditions [illegible]
have been in Saint-Ange of this Province and I [illegible] so
so thought. I would not [illegible] it for all the money in the
world. I feel that it is a [illegible] I [illegible] my [illegible]
on a competitive basis and take by chance [illegible]
[illegible] and selling it. I am [illegible] employment [illegible]
self. I get [illegible] a profit, probably enough [illegible]
and my family and do it on a personally [illegible] and [illegible]
to all I have.

You are the very opposite of the lobber, you are im-
[illegible], you [illegible] and [illegible] yourself?

A. Certainly.

Q. You have made a very nice [illegible] of Mr. [illegible]
company?

A. And [illegible] anybody else.

But speaking about yourself, you are a [illegible]
[illegible].

And you are getting out of it as [illegible] in [illegible]
[illegible] [illegible]:

Can you have been struggling for [illegible] and months to
[illegible] contract so [illegible] have to sell
[illegible]. [illegible]?

[illegible] I feel if I can [illegible] a [illegible] on
[illegible] [illegible] I will. [illegible] have to [illegible] [illegible]

maintain myself in the business.

MR. FRAWLEY: All right, thank you. I will call Mr. Stanger.

MR. HARVIE: I have just one question. Did you have anything else, Mr. Plotkins?

A No.

Q MR. HARVIE: Mr. R. T. Gilbert is your sales manager?

A No, he is not my sales manager. He is a salesman. He is a field man.

Q You were present when he gave his evidence?

A Yes.

Q I want to direct your attention to Volume 111, the evidence given by Mr. Gilbert on the 31st of July, which appeared at pages 12,546 through to 12,550. I do not propose to read it or anything like that. It is where he is giving some evidence as to the practice of the Bell Refining Company?

A Yes.

Q And he mentions some deal he had with a man by the name of Becker, I think you hage read that evidence?

A I have sir.

Q And by request, at my request, you have looked into the facts?

A Yes, I looked into the conditions and the books and deals to satisfy myself with the actual conditions.

Q Will you just make a statement?

A Yes, in connection with Mr. Becker I found that the only credits that the Bell Company extended to him are in fact they extended no credit, the only thing I found on

their books was in the form of N. S. F. cheques and that might, should not probably be considered as credit and I also found that they did loan him some drums but a very small quantity so that in the main the statement that they took him away from us on a credit basis or credit and drum basis is not entirely correct; the point there that Mr. Gilbert wanted to make, he was incorrect in a good many of his statements in regard to summing up what were the real conditions between the Bell and the Lion and I want to sum up all his evidence in this one fact, the difference in marketing between the Bell and ourselves and the B. A. and it will answer all the questions which Mr. Gilbert made or attempted to expose, is this, the Bell sells to dealers not on the basis of the B. A. or on the basis of the Imperial, they sell to dealers on the same basis we do or the Great West Distributors themselves, that is they do not attempt to set up a Bell plant some place and stock up with a resident agent; they in the main let their business come in the form of truckers or dealers who have pumps or equipment of their own in the main and quote them a price, not the tank waggon as would be quoted under similar conditions by the B. A. or the Imperial less 1 cent but they quote them what they have established as their agency commission, 2 cents; now the effect of that is that they, and they consistently do that, in other words, they have a 2 cent spread between the dealer and the tank waggon and they give that, not only to what is called commission, I mean agents, bulk station agents, because I do

not believe they have any or if they have, very few, but they give that to the same type of dealer we have, the trucker, so that through that method they enter the same field as we do and they do it on a different condition, different basis. We pay a cent and half commission on third grade and kerosene and 2 cents on standard and Ethyl but they pay a flat 2 cents to everybody on all, so that that in itself would give a slight advantage to the Bell if they chose to go to one of our established truckers or dealers and said to him "Well you can only get a cent and a half, you cannot get any drums, we will, our regular prices is 2 cents and we will occasionally lend you drums if necessary", and that is the essantial difference between the two companies and the essential, between the Lion and the Bell and the essential difference between the Bell and the parent company the B. A. Now does that answer that?

MR. HARVIE: Thank you.

MR. FRAWLEY: Mr. Stanger.

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JOHN STANGER, having been recalled, examined by Mr. Frawley, said:

WITNESS: All I have to put in, Mr. Frawley, is information you have required from time to time plus some further information on our importations of lubricating oils which the Commission requested.

Q. You are offering a folder, a file of statements which you have entitled "Information concerning Lion Oils Limited operations as requested by Mr. J. J. Frawley,

Commission Counsel", over and above Exhibit "545" which you yourself filed the other day?

A Yes.

Q And it also contains over and above my request, a statement respecting lubricating oils?

A Yes.

THE CHAIRMAN: I suppose that can go in as one Exhibit?

MR. FRAWLEY: Yes, Mr. Chairman.

(FOLDER WITH DOCUMENTS PRODUCED AND MARKED EXHIBIT "587").

Q MR. FRAWLEY: That is all, Mr. Stanger?

A Yes.

MR. FRAWLEY: Thank you.

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DONALD FAY BECKER, having been first recalled, examined by Mr. Frawley, said:

Q Mr. Becker, you are here today to file some statements that were requested the other day?

A Yes. I believe, there are copies of an Exhibit already filed.

Q These are copies of some statements already filed?

A Yes.

Q All right, we will have those marked later?

A And these are statements of the operations for the year 1938, the Becker Oil Company.

Q This is something different from what you put in already?

A No, that is another.

Q These are sets of copies again of what we put in before?

A Yes.

Q Very well?

A And these are copies requested by Mr. Cottle, a statement of operations.

Q This is new?

A Yes.

Q This is a statement of costs, purchases, sales and operating expenses of country stations for the 12 months ended 28th February, 1939, Becker Oil Company?

A Yes.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "588").

Q Yes, Mr. Becker, something else?

A A statement concerning plant operations.

Q This arose out of a discussion that you had with Mr. Cottle the other day as to the operation of your cracking unit principally?

A Yes.

Q It is called "Brief concerning plant operations of Becker Refineries", it is a sort of some semi-technical statement with regard to the nature of the operations?

A Yes.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "589").

Q Yes, Mr. Becker?

A That is all, Mr. Frawley.

MR. FRAWLEY: Thank you very much.

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GEORGE A. MACKENZIE,

having been recalled, examined by Mr. Frawley, said:

Q Yes, Mr. MacKenzie, now you were to complete some infor-

mation with respect to a departure from Imperial posted tank waggon prices?

A This is all I have been able to obtain up to the present time and I have taken it to you, the ones which I have.

Q Thank you very much. Now you offer a statement entitled "Great West Distributors, Limited" and it differs from the statement you gave us yesterday, it shows the departure from what you call standard tank waggon prices at the points listed, totalling altogether 22?

A 22 sales slips.

Q 22 invoices?

A Yes.

Q And running in date from about the 15th of March, Mr. Chairman, to the 23rd of June, it would appear from the statement?

A Yes.

Q And you have 22 invoices to support the statement?

A Yes.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "590").

Q With the invoices attached?

A Yes.

(INVOICES SUPPORTING EXHIBIT "590" PRODUCED AND MARKED AS EXHIBIT "590" (A).

Q I think perhaps it will help if we just take and look a little closely at one or two; the very first one shows that on the 27th of May 1939 at Lethrbdige station a man by the name of L. Burr of Lethbridge purchased 180 gallons of Red Head gasoline at 17.7; oh well then the slip shows "less 1 cent commission" and also less coupons

meaning by that by virtue of 1 cent per gallon commission as you call it, he paid a net of 16.7?

A Well for instance a case of that kind, instead of us making delivery to this farmer who came and obtained his own products and we allowed him a cent by way of commission or on cartage for taking it himself.

Q Well now do your stations hold this out as your policy, that if a farmer will come and take it away?

A We do at Lethbridge, it is a salaried station.

Q At Lethbridge because it is a salaried station?

A Yes.

Q There are no commissions paid, you simply pay a salary to the man?

A Yes.

Q Whether he sells 1,000 or 100,000 gallons a month?

A Yes.

Q And you feel you have a little more freedom there to carry out this policy?

A We feel on a policy and a condition existing like that, where a man comes and takes his own products instead of us making the delivery we should allow that. Which I believe is not the policy of other companies.

Q I see the next statement, the 27th of May, A. W. Henderson, Lethbridge, bought 90 gallons of Ethyl gasoline for 20.2, which probably was the tank waggon at that place, was it not?

A Yes.

Q Less 1 cent commission on hauling?

A Yes.

Q Amounting to 90 cents?

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A It is the same thing as the other.

Q It is really a rebate to the man you might call it or some allowance to him because he is supplying, because of his hauling himself?

A Yes.

(Go to number 12,994)

Q Now, let us look at the station where you have no salaried agent, Duberry.

Q THE CHAIRMAN: Why have you a salaried agent at that point?

A That is a Central distributing point which we have there. We have a large investment and these people live there and these trucks come in possibly at any time during the night and we give 24 hours' service, both for loading and unloading at that point. We have a large tankage.

Q Would it be practical to have salaried men everywhere as agents?

A I have never surveyed that thing. I do not believe it would at all points. We find in some places we do that where it is practical to us and because the man devotes his time in that way. We have outlets where we can get the gallonage, for instance, at Calgary that is a salaried man. We have three 8 hour shifts that we run down here. At Edmonton it is a salaried point and Innisfail was a salaried point but we discontinued that particular salaried point and changed it to a commission point as we found that where the agent was on a one day shift when he was on salary he did not seem to care and he was not as keen as he was when he was on commission and we changed it back to a commission point on that account.

Q MR. FRAWLEY: One of the cases you have given us here, Duberry, Invoice No. 108383, W. Bortsch. You show Red Head gasoline, 45 gallons, 20.8, which I presume is the posted tank waggon at that point?

A Yes.

Q And Powerite white, at what I also presume is the tank waggon, and purple gasoline at the posted tank waggon. But you have less dealer discount 1 cent. There is another departure from

the standard practice?

A Take the dealer we mentioned yesterday. He is a farmer that has his own equipment there at Duberry. He is not a dealer. He is a farmer, so, therefore, he comes to us and he purchases on that basis and we figure that the consumer in that instance is entitled to the 1 cent reduction the same as the dealer is.

Q Just like the town consumer, that is the wholesale grocer that you gave the 1 cent off to?

A No, this man if he has tanks and equipment and stuff like that, I believe he is entitled to it. He has got an investment there and so far as we are concerned we have not got our investment there in drums and he has paid for his tanks and equipment and underground storage, and he is a large operator. I openly tell you what I do and possibly some of the others do the same thing, but won't admit it.

Q That is interesting. It is not very many farmers that have equipment that the wholesale grocer has, but you put him on your commercial consumer list. That is all you are doing with this man, you put him on your commercial consumer list?

A Yes.

MR. PLOTKINS: You say there is not very many, but you would be surprised how many there are, large consumers in the Province, farmers.

MR. FRAWLEY: Well, that is fine. And may the Commission take it that wherever a farmer will put in his own underground storage and his vending pumps or whatever way he has of getting it out of storage, that you will put him on your commercial consumer list?

A Yes, I will go further than that. I think that on account of us having done that and are actually doing it, that the

other companies are following the same practice in doing it now.

Q There is only one other thing that I want to ask you about; You have put in an account here from Acme to the Calgary station. That is pretty well what we had yesterday?

A Yes.

Q It would seem then, to sum up this new evidence, apart from the practice you told us of yesterday that you have---- there are two other aspects to this departure of yours, one that you will give a man a cent off if he hauls his own goods, and you will also give him a cent off if he maintains some equipment, such as the commercial consumer in the cities maintains?

A Yes.

Q There was not anything else you wanted to say, Mr. MacKenzie?

A No.

Q MR. PLOTKINS: There is one question I would like to ask. When a large dealer, and what I mean by a large dealer is a man established in a given point who can show you he is doing fifty or sixty thousand gallons of business and he comes to you, would you meet the competition of the Lion Oils and the Bell, or would you meet the prices of the Bell or the Lion Oils or the Canadian Oils or any other company in attempting to get that business?

A Well, naturally.

Q So that in effect when you meet that price that dealer can go out and sell on his own basis and disregard the tank waggon?

A Well, I think they practically all do that.

Q Can they do that with the Imperial Oil?

G. A. MacKenzie.

A Well, I am not conversant with what the policy of the Imperial Oil is and what the Imperial do in that regard.

Q You are conversant-----

A I would think they could do that, but I do not think so. I think the Imperial would do, and I cannot speak for them, you understand. I mean that when their truckers come in and purchase products, even then they must sell and market them on the conditions set down by them.

Q You mean their agents?

A I mean their agent is a trucker.

Q Do you know, or it is your experience that that same dealer that comes to you to get a price based on fifty or sixty thousand gallons, we will say, to Trochu, where there is already an Imperial bulk station, can he go to the Imperial Oil and get any consideration or any discount off the tank waggon?

A I do not think he can.

Q So that in effect you are meeting competition, no matter what the price is?

A Yes.

MR. FRAWLEY: That is all, Mr. MacKenzie.

.....

JOHN TAYLOR, having been duly sworn, testified as follows:

Q MR. FRAWLEY: Mr. Taylor, you are the secretary of the Alberta Motor Transport Association?

A That is right.

Q What is the nature of your operations?

A The nature of our Association, it is an organization formed in this Province including in its membership all those who operate P.S.V., C.V. and C. licence plates.

Q P.S.V., what kind of a licence plate is that?

A Public Service Vehicle.

Q And C. V.?

A Commercial vehicle.

Q And C licence?

A That is a City licence.

Q All of these people are privileged to belong to your Association?

A That is right.

Q What is the purpose of the Association, what are its aims and objects?

A The aims and objects of the Association are to deal with all problems that confront the trucking industry in this Province.

Q Has the trucking industry in this Province a new problem lately?

A I believe so.

Q How does that arise?

A That problem arises from the fact that application for agreed charges has been filed with the Transport Commission at Ottawa.

Q You are referring to this Exhibit "530"?

A I am referring to application No. 4 filed with the Trnnsport Commission. Is that it?

Q That is it.

A That is fine.

Q Exhibit "530". You are here to-day to make a statement to the Commission, being a submission of your views with respect to the application which is coming before the Transport Board for approval?

A That is right.

Q Then will you just say what you have to say about it?

A As I pointed out, I am the secretary of this organization and I wish to point out the position of the trucking industry in the Province of Alberta and its relation to the general public interest.

I believe, your Honour and gentlemen, it is quite apparent that Highway Transport has quite demonstrated its right to existence by the manner in which it has developed during recent years. A service that is speedy and highly flexible has most certainly been the need which we find today being capably filled by the trucking industry which at present is so well serving the people of Alberta.

In the world of transportation, as in other fields, things of tremendous importance are daily occurring.

May I at this time give you some illuminating comparisons concerning the relative services of railroad and truck in the realm of time.

Shipments leaving the city of New York to the city of Calgary by bonded and insured carrier will arrive in 9 days by truck, where it takes 15 days by L.C.L. freight train.

From Chicago, similar shipments leaving Monday will arrive in Calgary Saturday, that is, in 6 days, where it takes 10 days by the L. C. L. freight train.

From Columbus, Ohio, truck shipments arrive in Calgary in 7 days, L.C.L. freight shipments in 11.

Time difference from San Francisco is 5 days by truck against 12 to 14 by L.C.L. freight train.

May I point out, too, that when a measure of downright expediency recently arose when serums were needed by the Alberta Provincial Government to check a sudden threat of epidemic among horses, having in mind the factors of speed, load, and costs, the truck was chosen because of the particular services it alone could render.

We bring you these facts, your Honour and gentlemen, to acquaint you somewhat with the type of service the trucking industry has been able to give the citizens of Alberta during these recent years.

It is because of these facts, your Honour and Gentlemen, that we definitely contend that the Trucking Industry is now, and will ever-increasingly become, no small factor in the economic life of this Province and that its services are ever-increasingly being sought.

I hold in my hand an Application and Agreement the purpose of which is stated as follows:

"This agreement on the part of the railway is intended "to enable the railway to meet competition of highway "transport."

But, your Honour and Gentlemen, further along we discover in the conditions attaching to the agreed charge, Clause 1, section a, it says:

J. Taylor.

"Except as otherwise herein provided the shipper agrees "to deliver to the railway for carriage between the "stations and/or places specified in paragraph D, "which is the Provinces of Alberta and Saskatchewan, "the said traffic howsoever directed or consigned; "and not to ship or cause to be carried any part of "the said traffic by any means of highway transportation "whatsoever."

I would state without reservation that the only meaning I can read into this Clause is not that it is an answer to the stated purpose of the agreement - that is, to meet competition, but is rather a definite process of elimination.

This, your Honour and Gentlemen, is the age old cry that was raised when cotton spindle met spinning wheel and again when stage coach and steam boat met railway. I believe you will agree with me that to the extent that the motor truck is a better and more flexible means of transportation to that degree it will supersede its competitors. Within the confines of this Agreement lies their only hope to tax or legislate their more efficient competitors out of existence. It is a spirit of cowardice that will fail in this generation as surely as it failed in preceding periods.

I am prepared to submit to this Commission facts and figures which will definitely establish the fact that Application # 4 and Agreement attached thereto is not a condition of meeting competition but one aimed directly at the Trucking Industry.

May I submit, too, that as a source of revenue to this Province the motor truck has paid, and is paying,

more than its reasonable share of taxes. Considering one unit costing, say, $2,000 using approximately 8,770 gallons of Gasoline a year and contributing 7¢ per gallon tax, and $125 P.S.V. and wheel base Licence we discover the revenue off the one truck is $738.90 to the Provincial Government yearly.

Let me at this time acquaint you with the fact that we have been advised by the Highway Traffic Board that there are 473 P.S.V. oil Operators Trucks operating in this Province at the present time and taking on the average the amount of Gasoline used by one truck amounting to approximately 8770 gallons per year, making a total consumption for the 473 trucks of 4,148,210 gallons of Gasoline and the Gasoline Tax at 7¢ per gallon would amount to $290,374.70.

We are also advised that in addition to the P.S.V. Oil Operator trucks, there are also 379 C.V . Oil Operator trucks used within this Province, which means Company-owned trucks, and by figuring on the same basis it would mean a consumption of 3,323,830 gallons per year and the Gasoline Tax would amount to $232,668.10, making the total Gasoline Tax $523,042.80.

In addition to the above we have estimated the average cost for licences per truck as follows:

Wheel Base $35. plus $90 .....$125.

P.S.V. Trucks 473 at $125.....$59,125.

C.V. Trucks 379 at $125.....$47,375.

Now, in addition there are 225 trucks hauling Gasoline in drums using approximately 1,973,150 gallons; wheel base and P.S.V. licenses amounting to $28,125;

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road Tax at 7¢ per gallon, making together with Chauffeurs Licenses of $4,800 a total revenue from the trucks per year in our Province of $166,245.50 and a grand total of $689,288.30.

It is I believe, unnecessary for me to point out another important factor, that of 3,000 unemployed drivers.

Now, as to the agreement, may I point out to you, your Honour and Gentlemen, that the Agreement, if made operative, will be terminated at the latest by March 31st, 1940. What guarantee, Gentlemen, have the citizens of the Province of Alberta that these lower rates will not give way to the regular or even higher rates, at that time?

Gentlemen, the Trucking Industry in this Province has been well pioneered by men who have been shown no special privilege, have received no subsidy and in the face of honest competition have rendered an ever-increasing service to the People of the Province by capably filling a distinct and unique need.

If you will allow me to refer back to the statement I made in regard to these figures from the Highway Traffic Board. I might suggest to this Commission that if they got from the Highway Traffic Board the figures in regard to the truck industry it would be very illuminating as far as the Province is concerned. I am not in a position to get these from the Highway Traffic Board but I am sure that this Commission would be if they so desired.

Another basic objection we take to the allowing of this agreement and to its application is the fact that in this country and I believe in one case this statement can be very successfully proven and in the other case it will

not ,I believe, be challenged, - but I believe if in this country we have arrived at the stage in its development where subsidized industries can force out of existence their legitimate competitors that are not subsidized, it is a very serious situation. The two contending transportation systems, the C. P. R. and the Canadian National, I submit and I believe I can substantiate from my point in regard to the C. P. R., but the other it is not necessary, they are subsidized, and the trucks are not. They have operated and will continue to operate on the basis of competition. Their very existence depends on the service and flexibility with which they endeavour to meet the competition that confronts them. In the last ten years that industry has grown in this country and on this continent to a very great extent. In the Province of Alberta there are 3200 P.S.V. Operators. 3200 P.S.V. Operators. That does not mean trucks. Or there are approximately that many, within a very few one way or the other. That, Gentlemen, I submit to you, is a large number of people, with a large investment, an investment of possibly well over 2 million dollars in equipment, largely servicing every farming community of this country or of this Province, and assisting in its general development, the development of its natural resources and so forth, which the competing transport systems cannot possibly service because they have not any facilities to do so. But if they do this thing they will, in my opinion, deliver at this major industry a blow which will retard its general development and retard the general development of this Province because it was on the basis of its service and its ability to meet and to serve the everyday conditions that evolved that the Trucking Industry originated and developed from.

In pointing out that these rates, if made operative, will certainly not be permanent, we must at this time state our strong conviction that the whole matter has been evolved to force the motor trucks off our highways.

May I say in closing, your Honour and Gentlemen, we are certainly not prepared to submit to this Commission that the Consumers of this Province will be well served by making it impossible for them to use a service they have been disposed to use in ever-increasing numbers for the good excellent reasons they have discovered and which I have here outlined.

In other words, Gentlemen, we believe that a conditon of monopoly will be created if this agreement is allowed to become operative. We are not prepared to-day to recommend that as far as the freight rates on the distribution of petroleum products are concerned in the Provinces of Saskatchewan and Alberta, that we are prepared to leave that to the tender mercies of the Canadian Pacific Railway Company or the Imperial Oil or the McColl-Frontenac. I thank you.

Q MR. FRAWLEY: Mr. Taylor, can you give the Commission any figures which would compare with the charges which are about to be agreed upon between, or which have been agreed upon?

A As I said, Mr. Frawley, at the outset, owing to the time element, I am not prepared to-day to submit any figures along these lines, but I am definitely prepared to submit them to this Commission when I have the time to do so, which I feel would be in thirty days.

Q Now, Mr. Taylor, are there any published charges of rates in cents per 100 pounds for the movement of petroleum

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products by transport?

A Not that I am aware of at the moment.

Q Can you even tell us what the going rate would be, say for 100 miles?

A Mr. Frawley, as I said before, I am not prepared to discuss this at random but I will prepare a brief for submission to this Commission.

(page 13,007 follows.)

Q MR. FRAWLEY: You are not able to say in what manner, I presume, the consumer will be either benefitted or hurt by the coming into effect of the freight charges as against the existing state of affairs?

A As I understand it, and I am not making this as a definite statement, there has been some reductions according to the press reports on certain classes of petroleum products.

Q Yes?

A To a radius of 270 miles from Calgary. I believe that that report is correct.

Q Yes?

A I am definitely of the opinion that any temporary advantages which might be gained will be of definite disadvantage in the long run when we take into consideration the true condition of affairs, which will be created in this province by the application of those rates.

Q Yes, thank you Mr. Taylor.

Q MAJOR LIPSETT: Mr. Taylor, you gave us the figure for the Government taxes, did you give the number of gallons of oil, of less oil which would be consumed in the province if these trucks were put out of business?

A No, I have not. As I said, the whole statement was not complete. I did not have time for to prepare my brief properly but if it was the desire of this Commission, we are prepared to do that at a later date.

Q MR. FRAWLEY: As a matter of fact, Mr. Taylor, you received the Public Service Vehicle Office figures, not directly but you did indirectly?

A Indirectly, not directly, that is right.

Q The same figures we had here the other day?

A Yes.

THE CHAIRMAN: Any questions?

MR. PLOTKINS: Mr. Chairman, I would suggest that Mr. Frawley obtain from the Highway Traffic Board authoritative figures.

MR. FRAWLEY: Oh yes, I am going to do that.

MR. PLOTKINS: That is all.

THE CHAIRMAN: That is all, thank you, Mr. Taylor.

MR. FRAWLEY: That is all the evidence that I have, Mr. Chairman.

THE CHAIRMAN: Now, Mr. Cottle, you were not here the other day when we were discussing Exhibit "543", even if Mr. Plotkins was not here when it was produced in evidence, that is the report on the examination of the accounts by Henderson & Teare, Chartered Accountants of this city. We have given thought to the submission that Mr. Plotkins made that his company, being a private company, he has not heretofore been required to disclose his capital position. We think that there is not the slightest force in his submission because, whether the company be a private company or a public company, it matters not. We are entitled to this, at least we have a duty, to get this information or we have not. The nature of the company from whom we obtain it, it seems to us, is of no importance and if it has a disadvantageous effect on the person producing it, that is something we cannot help. We have had to do things before that we did not want to do but Mr. Plotkins made a further

submission upon which we want to hear you, namely as to whether or not he is being asked to do something which other refiners or marketers have not been required to do.

MR. COTTLE: Well, I can assure you, sir, the he has not been asked to do what others have not been asked to do. We have a similar statement from The Great West Distributors, which is also a private company. We have similar statements from the Becker refineries, the Becker Oil Company, the Gas & Oil Products, the Maple Leaf, and in respect to the Texas Company, Messrs Peat, Marwick and Mitchell have made an examination and have confirmed the statements prepared by them are in accordance with the balance sheet and financial statement of the company; with reference to companies whose operations extend in provinces other than Alberta, I have not asked such people as the Imperial and British American, all of whom have published statements, to give me their complete balance sheets for the whole of Canada. They do not prepare individual balance sheets and profit and loss statements certified by auditors for each of the provinces and of course, all we are concerned with is what goes on in the Province of Alberta. The published statements are available to any one, they are published in the press but what we have got from them is a statement of their complete assets and liabilities and depreciation reserves and profit and loss as the result of operations in Alberta. I do not think there has been any distinction made between one type of company or one class of company.

THE CHAIRMAN: Anything more to add to what you have said, Mr. Plotkins?

MR. PLOTKINS: Yes, I do not believe that the financial statement of the Imperial Oil or the British American are complete in its details but I also take the stand that I believe Mr. Cottle is wrong when he says that the Imperial Oil in Alberta from the statements which have been submitted to this Commission showed the assets and liabilities. They showed the assets employed in the Province for refining or marketing purposes and they show the profit and loss in the operation but they do not go into details as to the assets and liabilities because that, it is obvious, on a provincial basis, it would mean nothing so that the only way we can get the true picture would be on their Dominion basis but I believe that after hearing you, Mr. Chairman, and hearing Mr. Cottle, that, apart from the fact that I am showing it in a little more detail, essentially the other companies have given the same information and I am content to leave it at that.

THE CHAIRMAN: That is a very fair position to take up, Mr. Plotkins. Now Mr. Frawley, have you anything to add.

MR. FRAWLEY: No, I am now asking for an adjournment of the Commission to a date in September. I would say the 12th of September would be satisfactory to everybody subject to perhaps some further developments but at the moment I would ask that the Commission be adjourned until the 12th of September.

THE CHAIRMAN: Have Counsel anything to say about that?

MR. NOLAN: The only observation I would make, sir, perhaps Mr. Frawley will, when it is convenient, give us an indication of what work is to be taken up when the Commission does then resume so that we may govern ourselves accordingly.

MR. FRAWLEY: Yes, I will.

MR. NOLAN: He may not know now but he will know some day and he might let me know and he will let me know I am sure.

MR. FRAWLEY: Yes, and Mr. Harvie and Mr. Plotkins and anyone else.

THE CHAIRMAN: The 12th of September is a Tuesday. Do you want it the 11th or the 12th?

MR. FRAWLEY: There might be some advantage in the first day of the week although perhaps not a very great deal. It does not matter very much, Mr. Chairman, the 11th or the 12th, the 11th if you like.

THE CHAIRMAN: Well, Mr. Harvie, have you anything to say.

MR. HARVIE: None, Mr. Chairman, other than I would like to get the same information as asked for by Mr. Nolan. We would like to get that as much in advance as possible as we have more submissions to make and more evidence to present to the Commission and we would like to know as soon as possible the procedure that is going to be followed.

THE CHAIRMAN: Will that give you time, Mr. Frawley. What I have in mind is this, we realize that Counsel who are continuously engaged in the work of

the Commission as some of you are, are necessarily doing a tremendous amount of work and more than we are presently doing in that you have to work after hours gathering your evidence. Now we would not adjourn, were it not out of consideration for Counsel and indirectly for ourselves and for the work of the Commission in that they must be fit to do that work and so I think they cannot continue longer without an interval but it is futile to adjourn for a period of time and then occupy that time in working out a working programme and communicating with Counsel and working upon that. The whole idea of taking any period of time is for rest and recuperation.

MR. FRAWLEY: Yes.

THE CHAIRMAN: Now if you are going to plan a programme and carry on consultations with Counsel as to how you are to proceed, during all that time, you are going to defeat the thing for which we are adjourning.

MR. FRAWLEY: Yes. As a matter of fact ---

THE CHAIRMAN: This Commission, I may add, is going to go right on working at this work with the hope of having something behind it when we meet again, subject always to what further evidence may do to that which we have considered and what bearing argument of Counsel will have upon it but we hope to review some of the evidence which is past.

MR. FRAWLEY: It is very difficult to say, of course, Mr. Chairman ---

THE CHAIRMAN: I mean if you want further time we are content that you have it. It is quite clear

that we have enough material to give us a good amount of work, so you need not consider us but I want it to be clear, in taking time off, you are taking enough off to do yourself some good.

MR. FRAWLEY: I thought of suggesting the 11th or 12th with the possibility of having to ask for a further seven or eight days or something of that sort when that time came, particularly if I am to give a summary or a precis or programme of the further evidence to my friends, which I want to do for them as well as for myself. It will help me and help them also.

MR. PLOTKINS: If I might make a statement, sir, I think you are quite right. We should be given 30 days rest from the labors of this Commission and at the end of 30 days then come together and see what the programme will be for the future and I want to point out, in my case at least, it is going to be a very busy season and I would like to spend as much time as I can and give as much time as is possible to preparing to assist the Commission to the best of my ability and I certainly would appreciate 30 days rest and that would not mean rest for me. That would mean time for me to look after my own business.

THE CHAIRMAN: You, like ourselves, I do not see how you are going to have any rest because, unless you personally are not concerned with the getting out of these further statements which you hope to have in the hands of the Commission within three weeks or so, to submit to Dr. Frey, who is in Washington ----

MR. PLOTKINS: I am going to have to prepare that all myself.

THE CHAIRMAN: Well do you not think you will find yourself much in the position where you just will have to keep on working, unfortunate though it be, for the reason that that statement is something, to be of value, must be examined by Dr. Frey.

MR. PLOTKINS: Yes.

MR. FRAWLEY: You understand, Mr. Plotkins, you are not preparing the statement to submit it here for the first time?

MR. PLOTKINS: No, it is to be submitted for the critical examination of Dr. Frey.

THE CHAIRMAN: And then you will be heard about it and he will be heard about it and you can reply to that?

MR. PLOTKINS: Yes.

THE CHAIRMAN: But it must go into his hands, so I do not want you to feel we are releasing you from the obligation of having that ready within the next three weeks.

MR. PLOTKINS: I realize that, sir.

THE CHAIRMAN: Because that would delay the whole work of the Commission.

MR. PLOTKINS: Yes.

THE CHAIRMAN: You understand that?

MR. PLOTKINS: That is why, Mr. Chairman, I believe we should have 30 days interval and at the end of the 30 days meet again and then see as to the outline, in other words, have 30 days absolutely blank so far as the Commission is concerned.

THE CHAIRMAN: Well I would like that very much and I would like to be one of those free but unfortunately we have to go at other tasks as soon as may be and to

have 30 days and then meet and decide on how many more weeks to give, I cannot subscribe to that because I have not the time to do it. Otherwise I would be very happy to, but Mr. Frawley, I am disposed to say now that you should take until the 18th and then go on at that time.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And proceed continuously.

MR. FRAWLEY: That is perhaps the better suggestion.

THE CHAIRMAN: I think it might be well to have a discussion with Counsel and Mr. Plotkins before you leave because you will not have time afterwards. Now, Mr. Plotkins, you at one time spoke of getting witnesses from outside the province and I mention that to you, there will be the adjournment, long enough to allow for that and if you are still of that mind, I just bring it back to your attention that we are implementing our promise and here is your chance.

MR. PLOTKINS: Yes.

THE CHAIRMAN: I think we will say the 18th and I hope you all have a very pleasant holiday.

MR. HARVIE: Will the period be from 9.00 to 1.00 as at present or back to the old time.

THE CHAIRMAN: Oh I think not. I think so far as the 18th goes we will start at 10.30 o'clock in the morning.

(The Inquiry was here adjourned to be resumed at 10.30 A. M. September 18th, 1939.)